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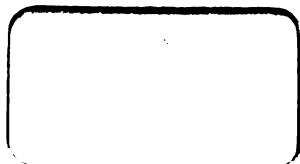
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# Free Trade

AND

# British Commerce

BY  
**AUGUSTUS MONGREDIEN.**

REVISED BY C. H. CHOMLEY.



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# FREE TRADE AND BRITISH COMMERCE.

BY  
AUGUSTUS MONGREDIEN.

"If you wish to see this question of free trade and our trade well discussed, I advise you to pay sixpence for the little book published by Messrs. Cassell, Petter, Galpin & Co., of London, entitled 'Free Trade and English Commerce,' written by Mr. Mongredien. I wish every elector in Preston could have it and read it."—*The Right Hon. John Bright, M.P., to an Elector of Preston.*

REVISED BY C. H. CHOMLEY.



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## PREFACE TO 1881 EDITION.

THIS little work, which was written in 1879, has enjoyed a wide circulation, owing chiefly, no doubt, to some words of praise from a great orator,\* and to the powerful propagandism of the Cobden Club. We are now in 1881, and I have little to add to, or to subtract from, either the facts or the principles embodied in it. I have, however, carefully revised the present edition, and made a few corrections in trifling matters of detail.

The present position of our trade with the United States of America curiously confirms the doctrines advanced in this little book. In August, 1879, Mr. James Howard, the present member for Bedfordshire, asked me my opinion as to how the United States had been paid for their large exports to us; my reply was as follows:—

1. The Americans have been buying largely, from both England and the Continent, of their own Bonds and Stocks, and have given prices above the marketable value of them in Europe.

2. Normally the United States are exporters of gold, they being producers of it. Latterly they have ceased sending gold to Europe, and the flow has set in from Europe to America,—not to an extent inconvenient for us, for we have a redundancy, but to an

\* Right Hon. John Bright, in his speech of the 25th October, 1879.



extent that may become inconvenient to the United States if the influx should continue; for, when it reaches a certain point, gold will diminish in value (in other words, prices will rise), and importation will be encouraged and exportation checked; and their protective system will be *severely tried*.

3. Notwithstanding the redemption of American Bonds and Stock referred to, the United States have still to remit a very large sum annually to Europe for interest and dividends, for which they pay in exports.

4. The commercial operations of one year are so interwoven with those of the year before and of the year after, that a series of years must be taken into account;—and the enormous increase of the American bread-stuffs, which deficient harvests have compelled Europe to import, only dates a couple of years back. Its effects are not yet fully disclosed.

To these remarks I fully adhere, and I may take this opportunity of adding that:—

1. It is not our gold that has gone to pay for our large imports from America. Our stock of bullion has remained remarkably steady throughout, and is more than ample for our requirements.

2. American indebtedness to England, far from being reduced, is now greater than it was, for our fresh investments in the United States exceed the amount of American State Bonds, etc., redeemed.

3. Our exports to the United States have, in spite of the exorbitant import duties, exhibited within the last two years a very considerable augmentation.

4. The largely increased revenue-receipts of the United States customs, in consequence of their largely increased importations from Europe, constitute a largely increased tax on the American consumers.

For that revenue comes out of their pockets, and is not paid by the European exporters, who have made handsome profits on their sales.

5. As long as America continues to export largely, she must also import largely, at whatever enormous cost (under the present tariff), to American consumers.

6. The superfluously large Customs' revenue that is being raised by heavy duties on heavy importations will year by year become a source of greater trouble and perplexity to the United States Government.

7. Every fresh addition to the productive and exporting power of American agriculture will increase the difficulty and hasten the crisis. For there is no escape from the inexorable law that the more a country exports, the more, in the same proportion, it must import.

AUGUSTUS MONGREDIEN.

*Forest Hill, London, S.E.*

*March, 1881.*

## PREFACE TO THE PRESENT EDITION.

IN preparing for the Press the present edition of Mongredien's "Free Trade and British Commerce," the argument has been left untouched, while comments and later facts and figures have been supplied in a smaller type where it seemed that they might be useful. In the chapters giving a statistical account of British Commerce, much of the matter written by the late author dealt with a state of facts which no longer exists, and numerous omissions have been made; but wherever Mr. Mongredien's arguments were applicable to the present day, they have been republished. A very valuable lesson is often to be learnt from his summary of past events, and from a comparison of his figures with those of later date.

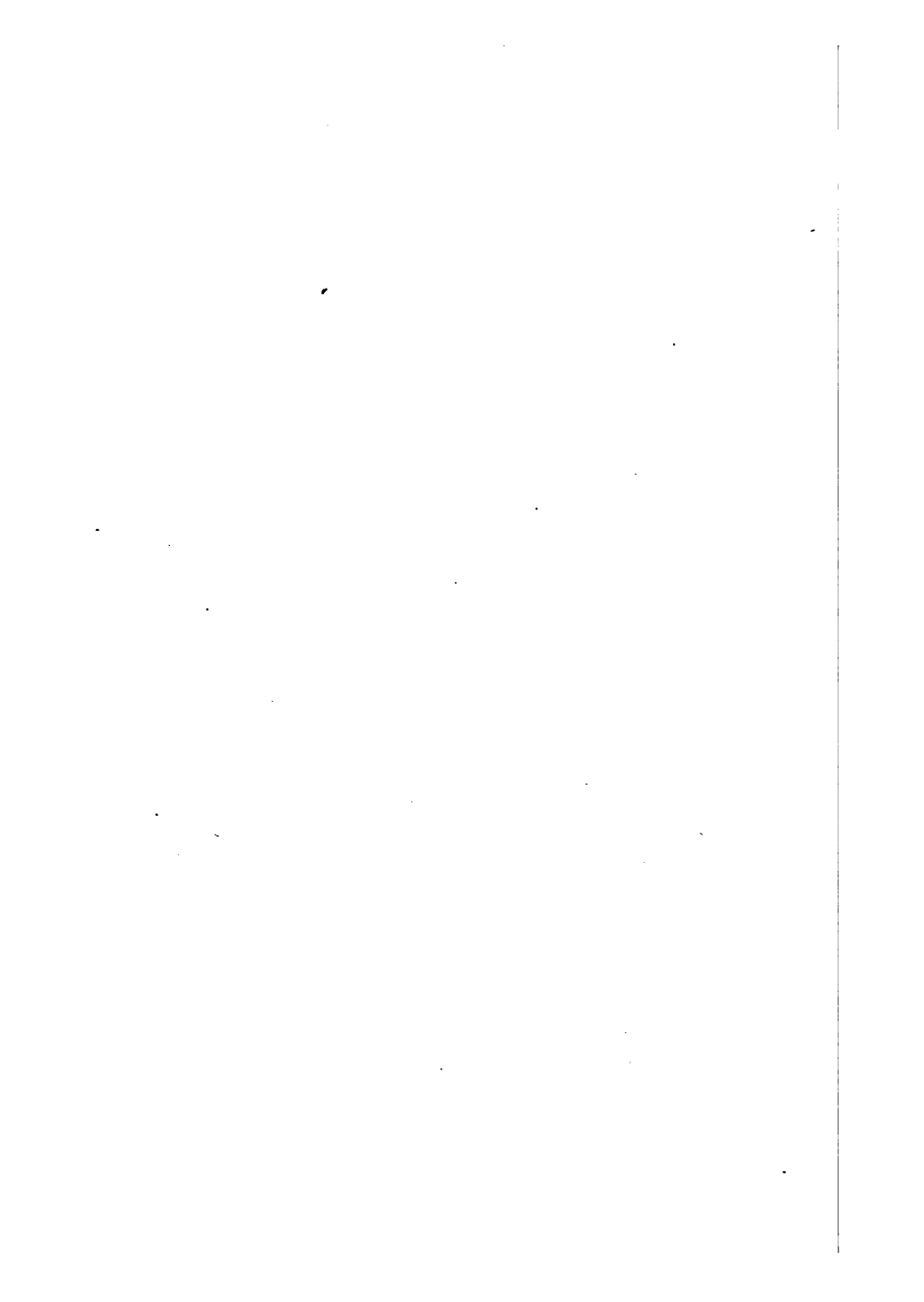
The first edition of the book, published in 1879, had a circulation of nearly 90,000 copies, and obtained the highest praise from Mr. John Bright and other champions of the free trade cause.

C. H. CHOMLEY.

*August. 1903.*

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# FREE TRADE AND BRITISH COMMERCE.



## CHAPTER I.

### INTRODUCTORY.

IT is intended in the following pages to take a short review of the present position of the free trade question in respect to the world at large, and especially in respect to the commerce of England. Such an inquiry might be useful, and perhaps interesting, at any time, but now,\* when commerce is abnormally depressed, and when it is a moot point how far that depression is connected with our free trade policy, it becomes an important and urgent one.

It is proposed, in the first part, to show the bearings of free trade on the commerce and industry of nations generally; and in the second to examine into the real causes of the present condition of English commerce, and ascertain to what extent, if any, it may be ascribable to the operation of free trade.

The subject will be treated from a practical and popular point of view, its technical and scientific aspect having had ample justice done to it by Professor Fawcett and others. In matters of this kind, where the

\* In 1879.

practical application of scientific conclusions depends on the action of men laboriously engaged in political or mercantile pursuits, who have little time to devote to the study of abstract questions, it is necessary to place the subject before them in the most direct and concrete form, and to appeal to demonstrable facts and undeniable figures, in order to arrest their attention and obtain their assent. Still more necessary it is to treat the subject in a popular manner in order to secure a hearing from the mass of the public, who, not unnaturally, shrink from the study of dry works on Political Economy.

Neither is it necessary to study Political Economy as a science in order to arrive at a definite conclusion as to the principle of free trade. The question narrows itself into a few simple issues, on which plain common sense is quite competent to deliver a verdict.

We propose, in the first part, to show—

1. That balances due by one country to another are paid directly or indirectly in commodities, and not in specie, unless occasionally and to an insignificant extent.

2. That, consequently, for every export of goods that is not sent to pay a previous debt there must be an import of goods to the same amount; and, *vice versa*, for every import of goods that is not received in liquidation of a previous debt there must be an export of goods to the same amount.

3. That all artificial limitation of imports necessarily limits exports to the same extent; that it curtails foreign trade, neutralises the benefits of division of labour, and displaces labour and capital from productive into unproductive channels of employment.

The above was written in 1879. Since that date, without

any interference with the free trade policy of the United Kingdom, all traces of commercial depression have entirely vanished, and at the time of this revised edition, 1903, the export and import trade of the country are both greater than they have been at any other period of its history.

4. That various other inconveniences and disadvantages result from the curtailment of foreign imports and the restriction of commercial intercourse between man and man.

To revert to the first proposition: a slight consideration of the actual course of events as they occur under our own eyes shows that the precious metals play a very small part indeed in the payment of debts between nation and nation. Hardly any specie changed hands in the payment of the enormous French indemnity to Germany; or in the transmission of the £400,000,000 or so which we lent to foreign countries in the years 1871, 1872, and 1873; or in the settlement of the £230,000,000 which we imported in excess of exports during the last four years, 1875 to 1878.

In the four years, 1899 to 1902, imports exceeded exports by £677,480,000.

The ebb and flow of bullion is on a scale far too minute to do much towards the settlement of international accounts. A country rarely possesses much more or much less specie than is needed for the purposes of currency and of the arts; and never exports specie so as to trench, beyond a trifling extent, on the amount required for circulation. On the other hand, a country never retains much of the specie that is in excess of its circulation requirements. In the first case, a comparatively small withdrawal of gold raises the rate of interest, lowers the price of goods, discourages importation and encourages exportation, so that the balance



is soon restored. In the second case, the redundant specie that remains after the wants for circulation are supplied lowers the rate of interest, raises prices, checks the outflow and attracts the influx of merchandise, and finds its way abroad, where its value is greater. This is constantly being exemplified by the action of the Bank of England. When it is wanted to attract a few millions of gold from abroad, the rate of interest is raised, and it flows in; when the stock becomes redundant, the rate of interest falls, and the surplus beyond circulation requirements gradually disappears. The amounts, which turn the scale are comparatively trivial. So sensitive is the money market, that three or four millions abstracted from, or added to, the currency are quite enough to depress or to raise the rates of interest sufficiently to produce a counterbalancing effect either way. And yet there are people who fancy that the balances owing to us, or by us from and to foreign nations, are paid in specie! Last year (1878) we imported from abroad £63,000,000 in excess of what we exported. To send abroad that amount in specie, or one-half of it, or even one-quarter of it, would have been simply an impossibility.

In 1902 our excess of imports over exports was £178,152,000.

Specie tends, like water, to find its level everywhere, the standard being the circulation requirements of each country. When short of that, its value is raised; when in excess of it, its value falls, and it flows in or flows out of the country in proportion. It is under the operation of this law that inconvertible paper money drives bullion out of a country. If its circulation requirements be partly supplied by paper money, less specie

is wanted, and as a country does not long retain specie in excess of its circulation requirements, the precious metals (of course, not the paper) are sent abroad where they are in greater demand and of greater value. If not a part but the whole of the circulation requirements be provided for by inconvertible paper money, then the whole of the specie (except perhaps a little hoarded here and there) will disappear.

The most striking proof of the fact that gold and silver above the quantity required for circulation and the arts will automatically leave the country where they are in excess is supplied by such gold-producing countries as Australia and South Africa. Since the discovery of gold in 1850, it has been produced in Australia to the value of 460 million pounds, the vast proportion of which has been exported as an ordinary article of merchandise in exchange for other goods. Of this amount Victoria, which, until the creation of a uniform tariff for the Australian Commonwealth, was the most protectionist of all our colonies, contributed some 260 million pounds' worth. And yet the protectionists who clamour for high duties to "keep the money in the country" congratulate themselves when exports are increased by huge shipments of gold to the United Kingdom. In gold-producing countries gold is "goods" exported to foreign countries in exchange for other goods.

If it be admitted that no diminution of, or increase to, the amount of specie required for the circulation of a country can be otherwise than both trifling and temporary, it follows, as a necessary consequence, that "balances due by one country to another are paid directly or indirectly in commodities and not in specie, unless occasionally to an insignificant extent."

## CHAPTER II.

## EXPORTS (UNLESS IN PAYMENT OF DEBT) NECESSITATE IMPORTS TO THE SAME AMOUNT.

IF it is not specie that we receive in return for our exports, or that we send in return for our imports, there is no alternative but to conclude that they pay for each other. In the case of national indemnities, subsidies, loans, interest on loans, and foreign investments, these are paid for by the export of goods without any return for them. But as far as commercial dealings go, it is utterly impossible to export goods without importing goods to the same amount, and *vice versâ*. Of course, this is a mere truism to those who are conversant with the subject, but there is a large number of people who look with dread on large imports, and it is necessary to make it clear to them that large imports mean large exports. If it be, as they deem, an advantage to import as little as possible, it follows as an indispensable consequence that they deem it an advantage to export as little as possible, and to have as little foreign trade as possible; for reduced imports necessarily imply reduced exports, and reduced foreign trade.

But let us suppose it possible for a country to export largely without importing in return any commodity except bullion, and equally possible for it to compel the retention of the bullion by prohibiting its re-exportation, would that country be the richer for it? Certainly not. Let us work it out. There could

be no increase of real wealth, for the bullion being in over-supply in respect to the commodities which it represents, would fall in value in the exact proportion of such over-supply; in other words, the money price of all commodities would rise in that ratio. No one would be the richer for that, for the exchangeable value of all commodities (that is, their relation to each other) would remain precisely the same. If the working man received twice his former wages, he would have to pay double for all he consumed, which would leave him where he was; indeed, the cost of living would rise upon him far more rapidly than he could, by remonstrance or strikes, etc., enforce a rise of wages from his employers. The gold and silver coins being but the counters used to represent the various objects that constitute the wealth of the country, the result of doubling the number of the counters would be, not to increase the wealth of the country, but simply to diminish the purchasing power of the counters, and make two of them necessary to represent the same commodity which was before represented by one.

Meanwhile the money-cost of production would have become so great that the foreigner could no longer afford to purchase the productions of that gold-glutted country, and exportation would cease. Foreign trade would, therefore, be totally suppressed, and the happy country would, like Japan of yore, live within itself, and be independent of the foreigner—a model result of the perfection of protective policy. True that there would be an accumulation of twice as much bullion as before, but as its purchasing power would be diminished by one-half the possessors would be no richer than those men abroad who had but half the quantity. The only way to obtain the full value of the

accumulated bullion would be to allow its export, and sell it to the foreigner. But to export bullion means the importing of goods, for what else could be got in exchange for it? And that means the total abandonment of the gold-accumulating policy. Yet what is to be done? Gold may be piled up in mounds, but if it loses its purchasing power it ceases to be wealth. Bullion is only worth what it will fetch in the commodity-market. It would buy twice as much abroad as it would at home. To utilise it, therefore, it must be sold to the foreigner. Then there would occur the converse of the operations that produced the glut of bullion. There would be large imports and small exports of goods, the protected interests would be ruined, internal commerce would be disorganised for a time, and everything would be unsettled until the superfluous bullion had been worked off, and its quantity reduced to the level of legitimate circulation requirements. But what can be said of a policy that led to such disasters as its reversal alone could remedy?

The supposititious case, however, of a country which let specie flow in but allowed none to flow out, never did actually occur, because no prohibitory measures ever could prevent the precious metals from being transferred from a country where their value is less to those countries where their value is greater. But the hypothesis serves to show that even if such regulations could be enforced, they would be productive, not of advantage, but of evil.

Immediately after the first gold discoveries, some of the elements of Mr. Mongredien's supposititious case existed for a time in Australia, and strikingly justified his conclusions. Specie was produced far faster than it could flow out of the country, and prices of everything rose so enormously

that gold almost lost its purchasing power. Wages went up to £1 and £1 5s. per day, but the 4d. loaf rose to 2s. ; the mutton which sold at 6d. per leg before the gold discoveries rose to 6d. per lb. ; and for the cottage previously rented at £30 a year, £300 to £400 was demanded. This was in Melbourne. To the Bendigo goldfield, 100 miles inland, carriage of goods cost £120 per ton, and flour rose in price to £200 per ton. It was only by sending the tremendous excess of gold out of the country that it became of real value to its possessors in securing them goods in exchange.

There are countries of which the imports habitually exceed the exports, and others in which the converse is the case. These apparent exceptions to the rule that every import must be balanced by an export are easily explained, and only tend to prove the rule.

In the first place, the balance on either side is not paid or received in specie, the movements of which, as we have seen, are quite insignificant in comparison with the balances in question. For instance, the imports into the United Kingdom exceeded the exports in 1877 by £80,000,000, and in 1878 by £63,000,000. If these enormous balances had had to be paid in specie, they would have swept away not only every coin, but also all the plate, watches, and trinkets in these islands. For it is calculated that the entire circulation of the country, together with all the precious metals it possesses as articles of ornament or utility, from a gold tankard to a silver pencil-case, barely amount to the £143,000,000 in question. But, far from the country being drained of its gold and silver, there is in it now quite as much as there was two years ago, before these balances arose, and our circulation requirements have not been trenching upon in the slightest degree.

Neither has England obtained these £143,000,000

worth of goods on credit. Merchants do not, in these days, give or take the same long credits as formerly. If the enormous sum in question had to be paid for by England at all, it has been paid long ago. Indeed, a certain portion of our imports are paid for long before the goods themselves come to hand. A cargo of wheat from California takes four to five months from the day of the ship's sailing before it reaches England, but it is paid for by drafts on England at sixty days' sight, which, sent forward by rail and steam, mature one or two months before the wheat itself arrives here. No! In whatever way we obtain the possession and use of this immense mass of commodities over and above what we send away, it is certain that the amount is not a debt owing by us. In fact, it is just the contrary; it is sent to us in satisfaction of debts owing to us for interest and dividends on money lent to, and invested in, foreign countries. We shall treat this subject fully later on, meanwhile we will just indulge in one or two remarks.

All wealthy nations which have lent money to other countries must of necessity import more than they export, since the annual income which they derive from those countries is paid to them in goods. In the same way, the poorer nations who have borrowed money from other countries must of necessity export more than they import, since it is in goods that they pay the yearly interest on the money they owe. Indeed, the comparative wealth or poverty of nations may be pretty fairly deduced from the amount by which their imports or exports are permanently in excess of each other. That amount which a nation exports without receiving a return for it in imports goes to pay a debt that it owes. That amount which a nation imports without sending out a return for it in exports constitutes

the payment of a debt owing to it. Consequently, instead of a persistent excess of exports being a matter of pride, it is a proclamation of indebtedness to other countries ; and, on the other hand, to view with regret the increased excess of imports over exports is to view with regret the increase of national income arising from foreign investments.

The statement that a continuous excess of exports indicates a nation's poverty requires some qualification in the case of new and partially developed countries. The United States, Australia, and the Argentine are all rich in natural resources and inhabited by wealthy communities, and yet their exports largely exceed their imports, since the interest bill on capital borrowed for development must be paid. Nevertheless, after meeting this annual drain upon their wealth, the United States and Australia, at least, have remaining sufficient to make their citizens among the richest in the world. Doubtless as their wealth increases, and they entirely cease borrowing abroad, there will be, for a time, a still greater excess of exports to meet repayment of capital, followed by a period when exports and imports will balance one another. Though countries exporting in excess are not necessarily poor, it remains true that to send out of a country more than is taken into it means a reduction of wealth, and that any country importing much more than it exports is, if not borrowing, necessarily wealthy.

In the following pages it is always to be understood that, in viewing the relation between imports and exports, allowance is made for that portion of either that is sent or received as payment for loans, war indemnities, subsidies, interest on investments, etc., leaving the question of the commercial interchange of commodities to rest on its own merits,



## CHAPTER III.

IF PROTECTION BE BENEFICIAL AS BETWEEN COUNTRY AND COUNTRY, IT MUST BE BENEFICIAL AS BETWEEN PROVINCE AND PROVINCE.

IF to protect native industry by putting such duties on foreign commodities as shall keep them out of the market, and compel the consumers to deal exclusively with native producers, be beneficial to a country, the same system must, for the same reasons, be beneficial if applied to the various provinces of that country. Let us take an instance. Wales at present buys her cotton goods from Lancashire, and her pottery from Staffordshire. There are a few small cotton-mills and three or four manufacturers of coarse earthenware scattered here and there throughout the Principality, but these cannot develop themselves under the competition of English producers. Wales therefore demands "protection for her native industry" through the imposition of such protective duties on English cottons and pottery as shall keep them out of the Welsh market. Supposing the request granted, the Welsh cotton-mills and potteries at once receive great extension; capital and labour are diverted to them from other industries, and the entire Cambrian community pays a heavy tax in the shape of high prices for bad goods, in order to support a few native manufacturers, and in order that capital and labour should be transferred from profitable to unprofitable employments. We will suppose, however, that this is a benefit to the Principality. If so—

by parity of reasoning—why should not the native industry of Monmouthshire be protected against the competition of the Carmarthenshire producers? And if we continue to carry out the principle to its logical results, we finally arrive at a state of things which in primitive times did really exist—viz. that in which each family live on their own farm produce, and in clothes of their own spinning and making—a state of things in which there would be no imports, and which would afford complete protection against foreign competition.

We have put the case of England and Wales, but the reasoning equally applies to the various parts of which all large states are constituted. If America or France deem it good policy to protect their population from foreign competition at the expense of their foreign trade, they must, as a logical sequence, deem it good policy for California to be protected from the competition of New England, or for Provence to be protected from that of Normandy. Why should not San Francisco and Marseilles be protected against the cotton goods of Lowell and Rouen, so as to foster and develop cotton manufactures of their own? Why should the west of America be dependent on the east, or the south of France dependent on the north, for hardware or linen fabrics? The fact of San Francisco and Lowell, or of Marseilles and Rouen, being under the same national government does not affect the question of free trade or protection in the slightest degree, for this is an economic, not a political, question. If a free interchange of commodities between two regions be an evil at all it must be an evil inherent to the system itself, and not convertible into a good, if the two regions happen to be under the same government. If it be to the advantage of a community to restrict its trade with

the rest of the world by lessening its imports, it can make no difference as to the truth of that doctrine whether the community be large or small, or whether it be independent or politically connected with other communities. We shall have occasion in a subsequent chapter to advert again to this subject.

Up to the federation of the Australian colonies in 1901 they did, in fact, levy duties on each other's products, and the same protectionists who now laud the blessings of inter-colonial free trade were only two or three years ago loud in their denunciation of it, though the partial political union of the different colonies has made no economic difference.

Mr. Mongredien's charge against protection, that it involves a "heavy tax in the shape of high prices for bad goods," is not always justifiable, since in many cases a protected industry produces a good article. But if the industry requires protection, the charge made for its products is always out of proportion to their value.

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## CHAPTER IV.

### RECIPROCITY.

It has been proposed to enlarge our foreign trade by the following curious process. We are to prevail upon foreign countries to take more of our goods by threatening that, if they do not, we shall take less of theirs. We are to induce our neighbours to extend their foreign trade by proposing, as the alternative, that we shall diminish our own. This is called the reciprocity, but it ought to be called the retaliatory, system. If the foreign country with which we are negotiating yield to our pressure, we increase our foreign trade; if not, we diminish it. In the first case we increase our exports and consequently our imports too. In the second case

we diminish our imports and consequently our exports too. It is to be left to the caprice, ignorance, or ill-will of a foreign nation to decide whether England is to lose a portion of her foreign trade or not. For it cannot be too often repeated that if we carry out our threat of importing less, it necessitates our exporting less to the same extent. It is proposed that we should enter into a formal international engagement to lop off a portion of our foreign trade, and in various other ways to do ourselves a serious injury, unless other people agree to alter their fiscal policy. Supposing that other countries decline acceding to our minatory invitation that they should reduce their tariffs, and that we accordingly impose such an import duty on articles that they have been in the habit of sending us, as shall reduce our annual importations thereof by £10,000,000, what then? No doubt they will not like it, but how shall we? A reduction of imports of £10,000,000 means a corresponding reduction of exports to the same amount, and is equivalent to a diminution of our foreign trade to the extent of £20,000,000 per annum, to say nothing of the disastrous effects to every consumer in the country, of the rise that would ensue in the price of the articles which we ceased to import, and the numerous other evils which the change would entail. Are we prepared to enter into a compact that we will submit ourselves to all these calamities in the event of other countries declining to be coerced by us into free trade? It is surely better to leave things as they are than to resort to measures that shall subject us to such an alternative.

There is the greater incongruity about the reciprocity system, from its being advocated by many who, in other respects, profess free trade principles.

For there is a manifest inconsistency in asking our foreign friends to admit our goods and so far adopt our policy of free trade, under the alternative that, otherwise, we shall shut out theirs and so far adopt their policy of protection. Since free trade teaches us that it is unwise in foreign nations to exclude our commodities from their ports, how can it be wise in us to carry out our threat and exclude their commodities from our ports? It is tantamount to proclaiming to the foreigner, "Unless you will become free traders we will become protectionists." We might just as fitly proclaim to the Turks, "Unless you become converted to the blessed truths of Christianity we will ourselves turn Mahometans." If free trade be a truth and a reliable principle, it must remain an immutable standard of right to those who understand and believe in it; and is not to be alternately professed and ignored in order to drive a bargain or gain an advantage. Those who entertain a firm conviction that free commercial intercourse is for the benefit of all men in all countries will never consent to enter into conditional arrangements under which there may be a possibility of their having to act in opposition to that conviction. To adopt the reciprocity system would be the first step towards re-enacting the Corn Laws.

The last sentence might now be reversed to read "re-enactment of the Corn Laws is the first step towards reciprocity," for Mr. Chamberlain has declared that "If you are to give a preference to the colonies you must put a tax on food." The present protectionist proposals involve a muddled attempt at both reciprocity and retaliation—reciprocity with the colonies which are to be invited to reduce or abolish duties on British goods, in return for Britain imposing a tax on foreign goods; and retaliation against the foreigner, who will be threatened with the imposition of

duties upon his products, unless he removes or reduces those levied by him upon British products. If the threat of retaliation were successful in bringing about reciprocity with foreign nations, then the colonies would lose the advantage in British markets which is promised to them by the penalising of the foreigner. If, as is practically certain, the threat were not successful, but produced retaliation by the foreigner, the consequences to the United Kingdom would be most disastrous. It might be that the United States would not further raise her already high protective duties against British goods—though this she might do. Other weapons, however, are available, such as differential railway rates on Canadian wheat, which in winter must be shipped from United States ports. The Americans might, indeed, altogether refuse to allow it to traverse their territory in bond for export to the United Kingdom, and thus seriously injure the grain trade of Canada, to foster which is one of the main objects of Mr. Chamberlain's proposed tariff tinkering.

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## CHAPTER V.

### DIVISION OF LABOUR.

AMONG the many advantages conferred on mankind by free foreign trade—that is, by the unrestricted interchange of commodities between man and man throughout the globe—one of the most signal is that, in the highest degree and to its widest extent it promotes division of labour. There is surely no need to expatiate on the important part which division of labour plays in multiplying and perfecting the products of human industry. Through its instrumentality the productive forces of the human race are employed in such a way as to lead to the most efficient and remunerative results. The larger the community or the aggregation of communities, the more effectually the

division of labour can be carried out. In a country village, or in an incipient colony, a shop is a miscellaneous store, a dealer devotes his attention to a number of incongruous articles, and an artisan is a jack-of-all-trades. In a populous district labour is more divided, and to each individual is allotted some special work to do, which constant practice enables him to perform with greatly increased efficiency. In large countries each province settles down more specially to certain forms of industry, according to a variety of influences, such as geographical position, soil, climate, natural productions, hereditary tendencies, early education of the people, sometimes chance immigration, and other causes more or less accidental. By means of this division of labour each province produces more abundantly, more cheaply, and in greater perfection, the special articles to which it devotes itself, and all work harmoniously together for the common good. The benefits conferred by division of labour would be lost if these provinces were to split among themselves, and each determine on combining within itself all the various trades and industries which before formed the speciality, some of one province, some of another. All of them would be losers because, whereas before in each of them capital and labour were concentrated on certain employments to which they were most competent, they are now diverted from these and directed to a variety of others to which they are the least competent. If the pottery district in Staffordshire were to decide on diverting a portion of its capital and of its skilled labour to the creation of woollen and linen manufactures, in order to become independent of Leeds and Belfast, it is plain that the operation would be a losing one, chiefly because the immense advantages derived

from division of labour and industrial organisation would be wantonly thrown away.

So, in the world at large, had it not been for the pernicious interference of governments with the natural course of things, each country would have settled down more specially to certain forms of industry, and, were trade left free, would, through this natural division of labour, each produce cheaply and abundantly those special articles to which it had devoted its attention, and contribute, to the full extent of its productive power, to the wealth of the world. It would, moreover, follow that as each country would devote its energies to the production of those commodities which it was more specially fitted to raise, with a view of exchanging the surplus for such commodities as other nations were more specially fitted to produce, the amount of international traffic would be enormous, and foreign trade would be developed to an extent at present undreamt of.

It is in the performance of this function of interchanging the commodities of one country with those of another that foreign trade is instrumental in promoting division of labour all the world over ; and whatever tends to impede the former must impair the latter. Now, protection, by checking imports, checks exports, and in that proportion curtails foreign trade. It is, therefore, clear that the protective system interferes detrimentally with the division of labour. Indeed, if that system were carried out to its full extent by not only isolating, as it now does, nation from nation, but also province from province, community from community, and family from family, division of labour with its attendant benefits would be altogether suppressed.

Fortunately, Nature herself interposes a limit to



the isolating tendency of protection, by the diversity of the products yielded by different parts of the earth. The most thorough protectionist will admit that there are many foreign commodities which each country must either import or entirely deprive itself of. The utmost he can accomplish is to abridge foreign trade; he cannot altogether annihilate it. Thus, under the operation of a natural law, no nation can, without an intolerable degree of privation and suffering, be completely self-dependent, and man is, in order to interchange the special products of one zone with those of another, compelled, apparently against his will, to exercise, at all events to a certain extent, the humanising influence of international commerce.

It seems a paradox to most protectionists that under free trade conditions a country can frequently with profit import from abroad goods which it can make more cheaply and efficiently at home. Yet so it is. Let us suppose that England, for instance, can produce boots at a cost of, say, 10s. per pair, of a quality which costs 15s. in Germany, and at the same time that England can produce for 10s. cotton which in Germany costs 20s. Then an expenditure of 30s. on cotton-making in England will give a return of 60s. in Germany, with which might be purchased four pairs of German boots, whereas 30s. expended in boot-making in England would have produced only three pairs, although England can make boots cheaper than Germany. This is an exaggerated example of a fact which is of extreme importance in exchange, and which explains why many things are imported into this country which doubtless could be made at less cost here. Nevertheless it pays to import them since British capital and labour can be more profitably employed in producing for exchange other articles, in the manufacture of which Great Britain has a still greater advantage.

## CHAPTER VI.

## PROTECTION APPLIED TO YOUNG STATES.

THERE are two classes of states which, while admitting the theoretical truth of the free-trade system, claim exemption from its operation for contradictory reasons—young states because they are young, old states because they are old. The former say that were they old they would not dream of maintaining protection, but being young their case is exceptional. The latter say that were they young they would not dream of hampering themselves with protection, which they now find so onerous, but, being old, their case is exceptional.

Let us first take the case of the young states. Their plea assumes the following shape. They are supposed to say, "As a theory, free trade is, we admit, unassailable, but, exceptionally, and for a time, it does not apply to young nations or colonies, for they would never learn to manufacture anything for themselves unless their early efforts were 'protected' from the sweeping rivalry of older and more expert producers. Give the native manufacturer a fair start by artificially fostering his infant labours, and when he has made some progress, and reached a certain amount of proficiency, we will then strip him of protection, let him breathe the bracing air of open competition, and adopt free trade without reservation." This doctrine will not, however, stand the test of close examination. On the contrary, it can, we think, be shown that it is precisely to young countries, or newly-founded colonies, that the appli-

cation of the protective principle is the most pernicious and indefensible.

This has been strikingly exemplified in Victoria, where a flourishing preserved meat industry was absolutely destroyed by duties on stock coming from the other colonies, and where even the manufactures which protection was especially designed to foster in 1901 employed fewer men and paid them lower wages than the neighbouring colony of New South Wales, with nearly the same population, and with industries pursued under absolute free trade. It is true there were a few more hands employed in Victorian factories—women and children, receiving low wages and forced to earn a living for themselves through the inability of their male relatives to earn it for them.

Another striking concomitant of Victorian protection was a loss of population through excess of emigration over immigration since the system was adopted. Between 1871 and 1900 departures from the colony exceeded arrivals by 16,000, while during the same period in free trade New South Wales arrivals exceeded departures by 282,000. Since 1901 the natural increase by excess of births over deaths has not been sufficient to counteract the loss by emigration, and the population of Victoria has absolutely decreased. It is also noteworthy that Victoria, the most protectionist of all the Australian states, is the only one in which females outnumber males, thus showing that protection has not encouraged industries that give employment to men.

These young communities are generally situated in the midst of an inexhaustible area of fertile land which only waits the application of human industry to be converted into mines of wealth. There is a strong demand for labour, which accordingly receives a high rate of remuneration. But so favourable are the natural conditions that high wages are perfectly compatible with the cheap production of articles which foreign countries readily take in any quantity, giving in exchange such other articles as the young country

could not produce except at a much greater cost. Its commerce is thus carried on under the most favourable possible conditions, and the working power of the young nation is all directed into the most profitable channels. It is now proposed to alter this prosperous state of things. Some of the articles hitherto obtained from abroad in exchange for the staple commodities of the young country are, at any cost, to be raised or manufactured at home, and the export of the staple commodities lessened in proportion. The capital and labour which are now working with admirable results are to be abstracted from the production of commodities so cheap and good that foreign countries willingly buy them, and to be devoted to the production of commodities so dear and bad that, in order to compel the native consumers to buy them, the importation of the same articles from abroad has to be prevented by prohibitory duties. And who is it that is benefited by this policy? No one, not even the workman or capitalist whose labour and money are engaged in the new manufacture; they were fully and remuneratively employed before, and now that they are diverted into new channels, competition keeps wages and profits down to the average level, while to enable them to get even that, the entire community has to be taxed. Certainly not the rest of the nation, for they have to subsidise the new industry to keep it going.

It is much more to the purpose to inquire who it is that is injured by this policy. Everybody is. All the consumers of the "protected" fabric, who are mulcted in the difference between the low price at which they used to get a good article from the foreigner and the high price which they now have to pay for an inferior article to the native. All the producers and traders in

the country, who suffer from the diminution that takes place in their foreign commerce in consequence of the reduced amount of the importations. And, finally, even the protected industries themselves; for while the labour and capital employed in them obtain no more than the average remuneration, they are subject to one peculiar disadvantage: they exist on sufferance, and the system of protection by which they were brought into being, and under which alone they can live at all, is precarious, questionable, and liable to break down altogether at any moment that the nation may get tired of paying a yearly subscription for the purpose of artificially maintaining it. These industries, the nurselings of well-meaning but short-sighted patriots, are for the most part sickly, nerveless, and etiolated; and although reared into existence with the professed view that they shall some day stand the brunt of foreign competition, the day never arrives when they are equal to the struggle, and protection has either to be continued indefinitely, or its removal is their death-warrant.

As these fragile protected industries increase in number and importance they at last become formidable obstacles to the full adoption of free trade. As to encouraging their growth with the idea that at some future period they will willingly encounter, or be found able successfully to withstand, foreign competition, it is an error and a delusion of which most old countries furnish abundant illustrations. The time will come when those young countries which have acted in that vain hope will bitterly repent having done so. They will find that they have made sacrifices to create interests, the vitality of which is entirely dependent on the national bounty, and which will have either to be left to their fate, or will remain a perpetual drain on

the resources of the country. Far better not to have called them into existence than to let them grow until the alternative faces you of either immolating them or of unwillingly adhering to a commercial policy which you know to be injurious, and which you only adopted temporarily.

The plausible cry under which this mischievous policy is usually inaugurated is, "Do not let us pay the foreigner for what we can produce ourselves!" The answer is obvious, "You do not pay the foreigner for his goods in the sense you mean it—that is, in money. Imports are paid for by exports, not in bullion." All commerce is barter. You simply exchange with the foreigner what you can produce better than he can, for what he can produce better than you can, and both parties are benefited. In prohibiting that exchange, you at the same time nullify both the sale of your own and the purchase of the foreign commodity. In order yourselves to produce the foreign article, you have to produce so much less of the native article which you would otherwise have given in exchange for it; for the same capital and labour cannot produce both, and by stopping the import of the former you stop the export of the latter. The phrase, "Do not let us pay the foreigner for what we can produce ourselves," correctly interpreted, means, "Do not let us exchange our productions for those of the foreigner," or, in other words, "Do not let us have foreign trade,"

## CHAPTER VII.

## PROTECTION IN OLD STATES.

THE doctrine that we have just examined—as to young states being the only proper exceptions to the universal adoption of free trade—offers a curious contrast to another which asserts the precise contrary—viz. that it is the old states, and not the young ones, that are entitled to form the exceptions in question. The plea may be condensed into the following shape: “As a theory, free trade is, we admit, unassailable, but, exceptionally, it does not apply to old states, in which interests have grown up under the shelter of protection for such a length of time, and have attained such dimensions, that the change now to a free trade policy would bring with it widespread ruin and desolation, and must therefore be avoided. Would that these interests had never been created and fostered by protective laws! But, unfortunately, here they are, and we shrink from the task of disturbing them. Of course, young states would not be so foolish as to encumber themselves with such burdens, but our forefathers were unacquainted with political economy, and hence the errors of which we are now feeling the effects.” We may observe, in the first place, that as the truth of the free trade theory is not controverted, and as the only question is whether the positive and permanent advantages which its adoption offers would compensate for the temporary disturbance which it would occasion to pro-

ected interests of old standing, we need only address ourselves to the latter topic.

To paraphrase the old Roman axiom, *salus populi, suprema lex*, we may say that the good of the people ought to be the first and paramount consideration. That the interests of certain limited classes should be consulted to the detriment of the country at large, that all should be injured in order that a few should be favoured, is a doctrine which has too often been acted upon, but has never been unblushingly proclaimed. In the present day, if put forth in its naked deformity, it would be denounced as utterly false and untenable. And yet that is, in plain words, the doctrine advocated in the foregoing plea. It implies opposition to all change and denial of all progress, because the change might be injurious to a few, though the progress would be beneficial to the many. It is, no doubt, to be regretted that the interests which stand in the way of the public good should ever, from a false policy, have been placed in that position, and we may sympathise with the individuals who may prove to be the innocent victims of an evil system, but that sympathy must not blind us to the fact that the community had for a long period been suffering from the existence of the abuse, nor still less induce us to stay the hand that is lifted to destroy it. The longer the evil has lasted, the more just and necessary it is to put a speedy end to it; and since we know that the change is for the national good, our desire to confer a permanent benefit on the community must overrule our regret at abolishing privileges by which a few gained and all the rest suffered.

All improvements in the machinery by which our social requirements are supplied involved changes that are injurious to some class or other. Railways



sioned a vast displacement of the capital and labour employed in the previously existing modes of conveyance. The adaptation of electricity to lighting purposes would, if successful, occasion heavy losses and deal a severe blow to the innocent holders of shares in gas companies ; and so on in hundreds of analogous instances which are of constant recurrence. Yet no one has ever seriously maintained that these improvements were to be " prohibited " in order to " protect " the interests which such improvements interfered with. Even a century ago, when the buckle-makers of Birmingham petitioned Parliament to protect them, by prohibiting shoe-ties, their request was refused, although it was in perfect consonance with the protective principles that then prevailed.

Under the Tudors and the Stuarts the protective system in England assumed the shape of patents and monopolies under the Crown. By arbitrary edicts consumers were not left free to buy where they could buy the best and cheapest wares, but were compelled to deal for certain articles with certain " protected " parties only, who frequently were new and clumsy at their trade. This system became so costly and oppressive that the Commons frequently remonstrated with Elizabeth and James against it as an intolerable grievance. It was accordingly alternately remedied and renewed, until the sturdy Puritans came and put an end to it altogether. The people of Europe and America who at the present day suffer by the protected trades, as we, of old, suffered by patentees and monopolists, and who also are " not free to buy where they can buy the best and cheapest wares, but are compelled to deal for certain articles with certain ' protected ' parties only," have not yet thoroughly realised the situation, and suffer

in silence. The fact is, that those who are pecuniarily interested in the maintenance of high duties and protective laws, are few in number, but wealthy, energetic, clamorous, and united; while the people, whose individual loss is small, though the aggregate is large, are apathetic and frequently misinformed and misled. It is hardly therefore to be wondered at that the rulers of nations should, hitherto, have found it expedient to court the alliance of the former, instead of siding with the inert and indifferent mass of the public.

Writing in 1879, Mr. Mongredien spoke of those injured by the protective system "suffering in silence," but since then the silence has been broken in clamorous protest against the monstrous tyranny and exactions of the American "trusts," which are the creatures of a high tariff. Mr. Henry O. Havemeyer, president of the Sugar Trust, on June 13th, 1899, told the Industrial Commission of Congress, in evidence, that: "The mother of all trusts is the Customs Tariff Bill. The existing Bill and the preceding one have been the occasion of the formation of all the large trusts, with few exceptions, inasmuch as they provide for an inordinate protection to all the interests of the country, sugar refining excepted. . . . In fact, the Tariff Bill clutches the people by the throat, and then the Governors and the Attorneys-General of the several States take action not against the cause but against the machinery which the people employ to rifle the public's pockets."

On September 17th, 1897, the *Melbourne Age*, a violently protectionist paper, published the following admissions from its New York correspondent:—

"Every now and then there is a violent ebullition of public wrath in America against the exactions and tyrannies practised by the trusts, and an attempt, generally futile, is made to curb their voracity. The Tobacco Trust is a particularly malign institution, and recently it has been put through the trying ordeal of a criminal prosecution. . . . This company practically controls the huge cigarette business of the country. It attempted to crush independent manufacturers

in the most shameful manner. It just said to the retailers: 'If you deal in other people's cigarettes at all, we will not supply you with ours, and you must have ours, or cease to exist.' After a long hearing, the jury failed to agree on a verdict; ten out of twelve were for a conviction."

The *Age*, on June 28th, 1899, wrote further:—

"Unless something is done, and promptly, economic liberty will be extinct in the American Republic. The *New York Journal of Commerce* says that the total capital in trusts and combinations, held in the form of stocks and bonds, now reaches the enormous sum of 5,832,882,842 dols., and that the trusts embrace close on 90 per cent. of the manufacturing and mechanical industries of the United States. It has become practically impossible for any private individual in America to commence business, either as a manufacturer or producer. He must enter through the gateway of a trust, or keep out of it altogether."

Since that time, President Roosevelt has been urged to take measures to curb the power of the trusts, and has thundered against them, but, as a protectionist, refuses to advocate the one effective means of rendering them innocuous—that is, tariff reform, which would prevent their fleecing American citizens by exposing them to competition from abroad.

The most signal proof possible that free trade is the only antidote to the trust evil was afforded by the protectionist Government of the Australian Commonwealth, which proposed a clause in its Customs Regulation Bill providing that if an injurious combination or trust were proved to exist in any manufacturing industry it might be dealt with by the *Executive temporarily abolishing the duty on the article monopolised by the trust.*

But if statesmen are sincere in their recognition of the advantages derivable from the adoption of free trade, and only hesitate from the fear of injuring "old protected interests," let them bear in mind that this disturbance of interests is limited and temporary, since, as has been the case with all new movements, whether from scientific or political causes, the displaced capital

and labour rapidly get re-distributed into other channels, while the improvement is universal, permanent, and expansive. Moreover, if it should be absolutely necessary, the disturbance which is so much dreaded can be mitigated by graduating the fiscal changes, and spreading them over a certain space of time. As a certain quantity of the previously prohibited articles gradually obtained admittance from abroad into the country, its exports would increase to the same extent, and to the production of this increased export, the capital and labour disengaged by importing what was before produced at home, would by degrees be applied. This process would go on until the protective duties were wholly removed, and very soon the "old interests," which were dependent for a precarious existence on a subvention from the rest of the community, would become "new interests," vigorous, self-supporting, and contributing to the wealth of the country instead of subtracting from it.

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## CHAPTER VIII.

### WHAT ENGLAND IS TO DO IF SHE BE THE ONLY NATION THAT ADOPTS FREE TRADE.

Among older nations, the triumph of the Social Democratic party at the last German elections was largely the result of revolt against agrarian protection, and in the United States the exactions of the trusts are enlisting millions of those oppressed by them on the side of free trade.

It has sometimes been asked, "Of what avail is the adoption of free trade to a country if every other country adheres to the protective system? What is a single

free trading nation like Great Britain to do when every other nation is tightening the bonds of restriction, and isolating itself as much as it can from the rest of the world? What is to become of our foreign trade if all other countries resolve on having as few dealings as possible with each other, and, as a necessary consequence, with us?" In the first place, let us observe that this question must proceed from a free trader, and must pre-suppose that the curtailment of foreign trade is an evil. For if it were not so, and if the querist deemed commercial isolation to be an advantage, what room has he for complaint if foreign nations, by carrying the protective system out in its integrity, should force upon us the blessings of isolation? If it really be the final object of sound commercial policy that each country shall supply its own wants (*far da sè*) and be independent of the outer world, then it must be absurd for us to hanker after foreign trade. Why should we repine at protection indirectly producing the same effects on us as it directly does on its own votaries? If those effects are beneficial to them, they must be so to us. It is evident then that the querist is a free trader, only he is scared and shaken by the unanimity with which free trade has so far been scouted by foreign nations. True, that all scientific inquirers are in favour of it, but the "still, small voice" of science is drowned in the loud clamour of the interested, while the people, not understanding the question, are silent, and the rulers side with the active and energetic.

That protectionist doctrines and policy do prevail in almost all countries but England, and among the people as well as among the governing classes, is very true and somewhat strange. Not strange, perhaps, among the people, to whom the old cries, such as "Keep

the balance of trade in your favour"—"Sell much, buy little"—"Do not be dependent on foreigners"—and similar fallacies in the shape of aphorisms, have been handed down traditionally as the condensed wisdom of their ancestors. But certainly strange among the governing classes, whose business and duty it is to study and make themselves masters of a subject of such vital importance to the people whose destinies they rule. On the question of the truth or falsity of free trade principles depends the policy which involves the greater or lesser well-being of many millions of human beings. The statesman who, in his fiscal measures, acts on the protective principle without first examining with the utmost care and conscientiousness whether it be a true and reliable one, or whether it be (as political economists assure us) a false and misleading one, is utterly unjustifiable. A grave responsibility rests on him if he persists in ignoring or neglecting the warnings of scientific experts who have devoted years to the investigation of the subject, and thus stakes the welfare of a nation on the line of policy which they utterly condemn.

It is a remarkable fact that among the eminent men who have made political economy their special study there is not one who does not uphold free trade and pronounce protection to be a disastrous error. In the Index to the Catalogue of the London Library there is a list of seventy-seven authors who have written on that science. Most of their works are written in English and French, but several are in German, Italian, and Russian. Here, then, are seventy-seven professional witnesses, men who have investigated the subject thoroughly, and whose opinion must, therefore, carry great weight. What do they say? By a majority of

seventy-five to two (the two being eccentrics of no note), they declare that the protective system is a mistake most injurious to the country that adopts it. What a startling contrast ! The scientific men (who have studied the subject) recommend one line of policy ; the statesmen (who have not) mostly act on the opposite. For a statesman to justify to his own conscience the adoption of a protective policy, he must have arrived at a moral certainty that all those men who have scientifically analysed that policy, and have unreservedly condemned it, are utterly mistaken. • Their verdict, however, will outlive his action, for the conclusions of eminent thinkers are not to be scornfully ignored, and the Napoleonic contempt for *Messieurs les idéologues* is a thing of the past.

One thing is certain : there can be no compromise between the two systems. Either the one or the other must be irretrievably bad, and it is almost impossible to adopt the one without totally discarding the other. The fiscal measures requisite to carry out protection are in diametrical opposition to those called for by free trade. The question, therefore, as to which is right and which is wrong is too important to be left in abeyance. It ought to be settled at once and for ever. Scientific men have done their part, and have unanimously decided in favour of free trade. It remains for the people and their rulers to institute a thorough examination of the subject, and to give practical effect to their decision. Symptoms of awakened attention to this all-important matter are now apparent in France, Germany, and the United States. In all these countries the resisting power of vested interests is strong ; but, on the other hand, those nations abound in able men and profound thinkers, and error will not live long

under the "fierce light" that they will throw upon the question—a question that has unfortunately been rather neglected abroad, as appearing to be, though in reality not being, too abstract and technical for general discussion.

There is a mistaken notion afloat in the minds of some of our neighbours that of two countries that trade together one gets a larger profit than the other, and that England, for instance, in her mercantile transactions with other nations, reaps from them more advantage than do those she trades with. But a little consideration shows that this is impossible. The act of trading, whether by sale, purchase, or barter, is a purely voluntary one, and unless it suited both parties it would not take place. A man buys because he prefers the article that he purchases to the money which he gives for it, and he sells for the converse reason; but that preference is spontaneous, and he yields to his own wish, not to compulsion. When two persons interchange commodities, each is actuated by the belief and expectation that he reaps a benefit from it. National trade is but the aggregate of individual mercantile operations, just as national profit is only the aggregate of individual gains; and individual traders have so keen a perception of, and so eager a desire for, lucrative traffic, that they may safely be trusted only to do business when they see a fair prospect of gain. And if they gain, what matters it if the parties they deal with gain too? It is of the very essence of commerce that buyers and sellers, importers and exporters, should all be benefited. In fact, were it otherwise, no interchange of commodities would take place at all; for who would buy were it only profitable to sell? And who could sell if there were no buyers? For a govern-



ment, therefore, to restrain its subjects from buying because the seller is benefited, or from selling because the buyer is benefited, cannot be deemed a rational policy. If England has profited largely by her foreign trade, it has not been because her percentage of gain has been over the average (for it could easily be shown that it has generally been below it), but simply because of, and in proportion to, the enormous dimensions to which it has reached.

Of this enormous expansion of her foreign commerce, England owes the greatest part to her adoption of free trade. The development of her commercial intercourse with the rest of the world since the repeal of the Corn Laws in 1846, and of the Navigation Laws in 1849, is marvellous. In 1840 our combined exports and imports were £172,000,000; in 1878 they were £611,000,000.

In 1902 the combined total of imports and exports was £878,000,000.

That free trade causes an increase of imports is admitted by its opponents, and, indeed, forms the very ground of their complaint, and, since increased exports follow as a necessary consequence, there must ensue a proportionate development of foreign trade.

And that all nations will sooner or later adopt the free trade system there is not, we think, the slightest room for doubt. How slow the world is in recognising and acting upon scientific truths there is many a precedent to show. Almost every improvement has had to make its way through a long period of neglect, of misconception, of prejudice, and, where "old interests" were encroached upon, of positive and obstinate resistance. A theory may be slighted, misrepresented,

pooh-poohed, and even persecuted for a time, but if it possesses the vitality of truth, the day will come when it will pierce through all opposition, and triumph in universal recognition. So will it be with free trade. It has become a scientific truth, and has gone through the ordeal of the most critical examination. All who have seriously studied it have become converts. It is neglected, not confuted. It is as a policy, not as a theory, that it has opponents. This discrepancy, however, cannot long prevail. Practice has a slow but steady tendency to conform to principle. The mass of the people do not yet clearly see how injuriously they are affected by a protective policy, because the tax which it inflicts on them is paid indirectly, and as it were imperceptibly, in the shape of the enhanced prices that they have to give for the protected articles. If that tax were collected from them directly and avowedly, their eyes would quickly be opened. They would begin to inquire why they should be asked to subscribe so much a year in order that A B & Co., and C D & Co., should be enabled to make money out of a losing business. And when the process of inquiry is once entered on, discussion and analysis will lay bare the truth, and a general reaction will take place in favour of free trade.

Meanwhile, all that England needs to do is to pursue her way unmoved, trade with other nations as much as they will let her, be ready to multiply dealings with them when they are ready, and open up new markets when opportunities offer. As to trying to force our intercourse upon others by raising our tariffs against them, we have already shown that all such retaliatory measures are much worse than useless, and have for effect merely to wilfully abridge our own

foreign trade, in order to spite those who refuse to increase theirs.

Since Mr. Mongredien wrote his book there have been increases in the protectionist tariffs of several nations—largely modified, however, by special treaties—and protectionist reactionaries are now active in this country. On the other hand, the colony of New South Wales, after a temporary adoption of moderate protection, reverted to absolute free trade, and on the establishment of the Australian Commonwealth abolishing individual State tariffs the protectionists suffered a heavy blow in the substantial reduction of the protective tariff introduced by the first Commonwealth Government; and even this reduced tariff is threatened with further modification by the free traders at the forthcoming elections in December, which will be fought principally upon the tariff issue.

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## CHAPTER IX.

### IMPOSSIBILITY OF ENCOURAGING EXPORTS AND AT THE SAME TIME CHECKING IMPORTS.

FORTUNATELY no government and no legislation can succeed in altogether putting a stop to international trade. The world is preserved from the complete application of protectionism by two important influences. The one is the fact that there are several commodities which a country must either do without or import from abroad, as the native production of them is impossible. No amount of protection could enable England to produce her own wine, or France to raise her own cotton, or America to grow her own tea. To some extent, therefore, Nature compels nations to interchange commodities, and thus she points the way to free trade.

The other influence is almost as forcible and effec-

tive. It arises out of the intense desire that exists everywhere, and is perhaps most intense in protected countries, to sell—that is, to export—to the greatest possible amount. Indeed, this eagerness to export did formerly often, and does even now sometimes, prompt governments to grant bounties on the exportation of certain articles, so as to enable the producer to sell his goods cheap abroad, while he gets the full price of them at home. This process simply amounts to taxing the community in order to make a present to the foreigner of a portion of the proceeds. All governments and all nations are exceedingly anxious to swell the amount of their exports to the rest of the world, and, strangely enough, this passion for selling co-exists with a vehement aversion to buying, or importing from other countries! As if the achievement of both these purposes at once were not an utter impossibility! It has been clearly shown that if a community desires to export, it must, from the nature of things, import in proportion—and if it determines on curtailing its imports, it must be content, in a similar ratio, to curtail its exports.

As we have elsewhere pointed out, some nations do indeed export more than they import, but that is because they are in debt to the rest of the world, either for interest on loans, etc., or for war indemnities, or for tribute to a suzerain power, and such like. These debts are provided for, not by the transmission of specie, but by the export of goods, and for that portion of their exports those countries, of course, receive no imports in return. So likewise some countries (among which England stands foremost) import more than they export, because the rest of the world is in debt to them, and this excess of imports being sent in payment of that debt, no return is made for it in the shape of exports.

But beyond the amount of such debt-payments, it is an incontrovertible fact that for every hundred pounds' worth exported, a country must receive back one hundred pounds' worth of foreign commodities. If you determine on only importing fifty pounds' worth of foreign commodities, you must be content with only exporting fifty pounds' worth of your own productions. Such must of necessity be the final result of your commercial transactions with the world at large. Of course, with one or more individual countries, your separate account may stand differently ; you may export largely to these, and get but few imports from them in return ; but your imports will be, in the same proportion, larger from, and your exports smaller to, other countries, so as to restore the equilibrium, and in the aggregate your imports and exports will balance each other.

It is this passion for exporting which practically acts, to a certain extent, as a counterpoise to the aversion of protectionist countries to the importation of foreign commodities. They cannot indulge their love for selling, and, at the same time, indulge their repugnance to buying. Of this they are unaware, and they delude themselves by a vain expectation that they can compel the foreigner to pay in specie for the goods which they sell to them. But it is not so, it cannot be so, and, even if it were so, it would be of no advantage to them, for the reasons which we have given elsewhere. The goods which they export will be paid for in goods. Practically and substantially all commerce is barter.

Some have proposed, as a milder and more allowable form of protection, that protective duties should be levied on foreign manufactured goods only, and not on agricultural produce or raw materials. The

reason assigned is that the former represents a larger percentage of capital and labour than the latter class of commodities. This distinction, if admissible, would not meet any of the objections to which we have shown the protective system to be open. But it is not admissible. The only difference (and that a slight one) is that the element of rent of land enters rather more directly into the value of raw material than into that of a manufactured article. But otherwise, fifty pounds sterling's worth of the former represents as much of wages of labour and remuneration to capital as fifty pounds' worth of the latter. The identity of their market price shows the identity of their exchangeable value, and, as nearly as possible, the equivalence of their cost of production. There is undoubtedly more labour and capital absorbed in a £50 pianoforte than in a ton of pig iron at £5 per ton; but not more than in ten tons of the same pig iron, since they also represent the same sum of £50. It is not the question of relative bulk or weight which we have to consider, but that of relative value, and whether it is expensive cutlery or cheap raw cotton that constitutes the import, the same value of each represents, as nearly as possible, the same amount of capital and labour.

It may be added that the completed product of one industry is the raw material of another industry—refined sugar is raw material to the biscuit manufacturer and the confectioner—even a chronometer is raw material to the builder of ships; consequently a tax on any manufactured article would produce a direct injury to the British industry employing that article.

## CHAPTER X.

## FREE TRADE PRACTISED INTERNALLY BY ALL PROTECTIONIST STATES.

THE avowed and no doubt sincere object of the protectionist statesman is "to foster native industry, by employing it to supply the wants of the community, instead of paying tribute to the foreigner by resorting to him for the supply of those wants." This is only the isolation principle in another shape. If you wish for an outlet for your productions, you must submit to employ and pay the foreigner for his productions to the same value, for you will have to receive them in payment for yours. If, on the other hand, you wish your country's wants to be supplied exclusively by its own inhabitants, you must cease interchanging commodities with the outer world, lose the advantages of division of labour on a large scale, and, as the Japanese formerly did from choice and on system, or as our remote ancestors did from ignorance and necessity, shut yourselves up within your own circle of resources.

But even then you are not relieved from the detested presence of free trade. It reigns paramount within your own country. It may not exercise its alleged baneful influence on your relations with other countries, but it does exercise its full influence (baneful or not) on the relations of one part of your country with the rest. All the commercial intercourse that

takes place between the various provinces of your empire is entirely governed by free trade principles. Yet it is not found that this unrestricted competition benefits some to the injury of others. On the contrary, each part works harmoniously with the rest, and all are left free to adjust their dealings under the natural laws of supply and demand. Each district settles down to that form of industry to which circumstances have best adapted it, and requires no government interference to protect it against the competition of neighbouring districts. All trades in all places within that country are open to all men, and no one would deem it to be a benefit that a heavy tax should be imposed on the cheap and good wares produced in one spot, in order to force the sale of dear and bad wares produced in another. In fact, the principle of free trade has been, and is, acted upon to the fullest extent by all governments within the limits of their own dominions. There may have been some few apparent exceptions, such as the *octroi* duties on the introduction of certain commodities into some Continental towns, and similar local taxes, but these were levied for the purpose of revenue, not of protection. In the completest and widest sense, it is a fact that no government, however protectionist in its practice towards other countries, has ever acted counter to free trade principles within the range of its own empire.

It is not easy to justify this inconsistency. If free trade be an evil as between the United States of America and the other countries of the world, how can it be a good as between, say, Pennsylvania and the other states of the Union? The economic relations of these to each other are not in any way affected or modified by the fact of their being members of the



same political confederation. The native industries of Kentucky and Illinois remain exposed to the competition of the well-organised and old-established industries of New York and Massachusetts in spite of their being all represented in Congress at Washington. If protection be so beneficial to the country at large, why not extend its blessings to each of the states of which it is composed?

Until recently Italy was split up into several different realms, and each was (of course, for the "good of the people") "protected" against the productions of the other. But when the Italian states merged into one nation, those restrictions were removed. If those protective shields against competition had really worked efficiently for the "good of the people," their removal must have occasioned great suffering and distress, but no "cry of anguish" has reached us on that score. If, twenty years ago, it had been really good for the people of Piedmont and of Naples respectively to have had few commercial dealings with one another, the mere accident of a change of government cannot have altered the eternal fitness of things, or made it right now, as it was wrong then, to leave those two populations exposed to the terrible misfortune of unrestricted commercial intercourse with each other.

Again, let us imagine the deplorable contingency (which we most sincerely trust may never occur) of the Western and Eastern states of America separating and forming two several independent republics, what then about protective customs' duties? If it be a wise and beneficial policy for the present United States to protect its people against the cheap manufacturers of old Europe, it would follow as a necessary consequence

that it would also be a wise and beneficial policy for the Western republic to protect its people against the comparatively cheap manufactures of the older Eastern states. To judge by all historical precedents of what men would do under such circumstances, we should infer that the government of the new dominion would undoubtedly (unless they were very much in advance of the present state of public opinion in America) adopt the usual old policy of "fostering native industry" by means of the protective system. But here again there would be a manifest and palpable inconsistency. If, in case of separate sovereignty, the welfare of the Western republic of America required the adoption of a protective policy against the Eastern states, why should such not be required now? The pleas as to fostering native industry, protecting infant manufactures, and being independent of extraneous supplies are as urgent at the present time as they would be then. Why are those pleas to be only attended to in case of secession, and disregarded while the Union is maintained? Are we to believe that, under the present form of government, commercial prosperity is only obtainable by free trade, while, under another, it would only be obtainable by protection?

Each state of the Union is at present exposed to the competition of more than forty other states and territories extending over a vast continent and occupying a space equal to one-fifteenth of the habitable part of the globe, and yet none of them have uttered a syllable of complaint in respect to the system of free trade which prevails among them, or asked for the enactment of defensive tariffs to protect them against each other. Yet, at the same time, the aggregate of these forty or fifty states fancy that they cannot get

on without a defensive tariff to protect the entire body of them from other countries. If one-fifteenth of the world can prosper under internal free trade, why should not a third, or a half, or indeed the whole of the world?

But let us glance at another contingency. At present the United States and the Dominion of Canada form two separate and distinct governments. Accordingly, each is hedged round by *chevaux de frise* of tariffs, and their commercial intercourse is checked and hampered by impost duties and restrictions having for avowed object the protection of their respective populations and the increase of their prosperity. According to the protectionist theory, each nation is benefited by these arrangements, and would be injured by their removal. Very good; but let us suppose that political changes were to bring about the admission of Canada into the Union, and a fusion of the two dominions into one federal republic, what would happen with regard to the fiscal regulations which are now declared to be essential to the prosperity of both populations? Would they be persevered in? It is not likely; it would be an unexampled anomaly that one part of a republic should be debarred from free commercial intercourse with the other parts. Consequently, the principle of free trade which now governs the commercial relations of the different states of the Union among themselves would be extended to Canada, and the results of unrestricted commercial intercourse between the two dominions, now so carefully guarded against, would have to be faced. On the protectionist theory, those results should prove ruinous to both parties; but can any one seriously believe that such would be the case?

Similarly, Wales and Ireland, on protectionist principles, would require protection against England.

There is, however, method in the madness of large manufacturers who acquiesce in free trade throughout huge territories like the United States, and fiercely resist free trade with the rest of the world. A large population shut up within the tariff wall is necessary for the constitution of powerful trusts and monopolies, which can fleece the "protected" consumers in exorbitant prices, and export cheaply to the rest of the world.

A small state, however high be the duties, offers no adequate scope for the employment of predatory capital, such as is found in the tariff-barred markets of the United States and Germany.

On this point the constitution of the Australian Commonwealth affords some interesting side lights. The protected manufacturers of Victoria welcomed free trade with the sister states because they saw in it the opportunity of forming combinations strong enough to crush the smaller industries of the smaller states, and raising prices in an extended market shut in by the tariff from foreign competition. And one of the first consequences of federation on a protectionist basis was the formation of several manufacturing combinations, in humble but hopeful imitation of the great American trusts.

Protectionists in the small state of Western Australia, on the other hand, looked askance at federation. They were no more anxious to have their local industries destroyed by the manufacturers of Victoria and New South Wales than by those of foreign countries. As a condition of joining the Commonwealth, they insisted upon and obtained the right to protect themselves for a time against the other states, only gradually reducing duties to vanishing point; and, seeing that protection to local industries must eventually disappear, practically the whole population of Western Australia was converted to international free trade! If they were no longer to have the privilege of paying exorbitant prices for the products of West Australian industry, they preferred to pay low prices for British goods, rather than spend their money to foster manufacturing monopoly in the Eastern states. Consequently, Western Australia sent an almost solid free trade delegation to the first Federal Parliament, pledged to do its utmost to bring about unrestricted intercourse between the Commonwealth and the rest of the world.

The West Australian protectionists were at least logical in the application of their doctrine. They held that if protection was good for the whole of a continent it was good for a part, and that for their particular part protection to the whole might be worse than absolute free trade.

The fact of the matter seems to be that the erection of a protective wall around a village, county, or petty state, though quite logical, means less wealth to all within it, and that the erection of such a wall only around a congeries of villages, or counties, or states is quite illogical, but means immense wealth to the few at the expense of the many. Where money is in question, even protectionist logic goes under, and the wealthy and powerful triumph every time.

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## CHAPTER XI.

### NON-ECONOMIC CONSIDERATIONS.

SOMETIMES objections are made to free trade, not founded on any imperfection in the theory itself, but arising from altogether extrinsic considerations. But such objections are quite irrelevant. Each science has its own province of inquiry, and its conclusions are confined to the topics that form the special objects of its investigation. The purpose of political economy is to ascertain the laws under which human industry can produce the most ample results, and the "wealth of nations" be best developed. It is no impugnement of the truths which it propounds to contend that there are considerations foreign to the science itself which render it inexpedient to act on its conclusions. In an æsthetical point of view, factories may be objects too hideous to be tolerated, and it may be better to leave a coal-mine unworked than to destroy the lovely trees which adorn its surface. In a political point of view, it may be better that each country should keep itself

independent of foreign commerce, so as to be prepared, at any moment, without feeling its loss, to wage war with other nations. Or, in a theological point of view, it may be better for men not to devote too much attention to such subjects, as tending to seduce their minds into mammon-worship. But it is the business of the statesman, not of the political economist, to examine these allegations, and allow them practically such weight as they may deserve. The mission of political economy is confined to the elucidation of economic principles and their application to plutology or the science of wealth ; and it is no refutation of the truth of its conclusions that objections may be raised to their practical adoption, which arise out of a quite different order of considerations.

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## CHAPTER XII.

### FOOD SUPPLY IN TIME OF WAR.

By HAROLD COX.

*Reprinted, with minor omissions, from a Cobden Club leaflet, "Food and Folly."*

AMONG the most important of the non-economic considerations referred to by Mr. Mongredien in the previous chapter is the question of our food supply in time of war. Apart from exaggerations, the case put forward by the alarmists is that we are so largely dependent upon foreign countries for our food supply that in time of war we might be starved into surrender, or at any rate that the price of food would be so raised as to inflict a dangerous strain upon the endurance of the working classes. That the price of wheat, and probably of other foods also, will rise in time of war

there can be little question. In the Crimean War the price of English wheat rose from an average of 53s. 3d. in the year before the war to 72s. 5d. in 1854 and 74s. 8d. in 1855. Yet our command of the sea was then absolute, for we were in alliance with the next strongest naval power, and our enemy had practically no navy at all. It may be added that we then produced at home—according to figures quoted by Captain Stewart Murray—more than five-sixths of the wheat we consumed. Why under such circumstances the price should have risen at all is a question that the alarmists may be left to worry over by themselves. They are fond of pointing to the fact that it did rise; but this fact, if it proves anything at all, clearly proves that neither the complete command of the sea nor the home production of wheat will keep us from a rise in the price of wheat on the outbreak of war.

#### PEACE PRICES AND WAR PRICES.

“Whether such a rise would have the terrible consequences which the scaremongers prophesy is another matter. In previous years the price of bread has frequently been double, or nearly double, or more than double, the present figure. The price of the finest bread, according to the Scottish Bakers' Year Book, has been for a year or more in Edinburgh 5½d. per quartern. In 1872 the price rose as high as 10d., and in 1868 to 10½d. In neither of these years were we at war, and neither year was marked by any exceptional distress. To-day our population is far better equipped for meeting the strain of high prices than it was then. Pauperism has greatly declined; deposits in the Savings Banks and investments in Co-operative Societies and Building Societies have enormously increased. The general standard of comfort among the working classes is undoubtedly higher. On all these grounds a rise in the price of bread, though it would be severely felt by the poorest classes even to-day, would produce far less suffering than in the years mentioned.

#### THE EXPERIENCE OF 1812.

“It may, however, be suggested that perhaps the price of wheat would rise not to double, but to four or five times the present figure. Yes, perhaps it might if we were ever fools

enough to try again to grow all the wheat we want for our own consumption. In the year 1812 the price of wheat did rise to more than five times the present figure. As much as 172s. per quarter was paid for wheat in London in the month of October, 1812, and the official average for the year worked out to 126s. 6d. The price of the quartern loaf, according to the assize of bread set by the Lord Mayor, was 1s. 8d. during July, August, and September, and the average for the year was 1s. 6½d. Yet we then grew all our own wheat, except a small fraction, and practically all the rest of our food as well. We also had complete command of the sea. The only thing we lacked was the command of our own climate.

#### THE SUN WILL NOT FAIL EVERYWHERE.

"To-day, happily, we are not dependent upon the vagaries of our own climate for the supply of one of the most important of our foods. Nor are we, as during the Crimean War, dependent upon a somewhat limited area of foreign soils to make good our own deficiencies. To-day we draw upon the whole world for our wheat. The sun will not fail everywhere, nor shall we be at war with all the world at once. Our wheat supply is therefore not less, but more, secure than ever it has been before.

"That statement goes to the root of the matter, for the same general considerations that govern the question of wheat apply also to the question of other foods and of raw materials. It is worth while, however, to examine in detail some of the suggestions put forward and the statements made by the authors of this scare.

#### A RUSSIAN CORNER IN WHEAT.

"One favourite suggestion is that, in case of a war with Russia, the Russian Government would spend £100,000,000 in cornering American wheat. Let us assume that this is done. Assume that the Russian Government has the money to spare, and has also sufficient grip of American methods to succeed where Mr. Leiter failed. Assume all this. But who would suffer? The moment the corner commenced, the price of wheat would rise in England, and instantly every corn dealer on the Continent of Europe—not to mention the



Argentina and India—would begin to buy up corn wherever he could lay his hands upon it for shipment to England. The people who would be hardest hit would be the poorer classes in France, Germany, Austria, Italy, Roumania, and even in Russia herself, for they would see their bread rising to famine prices, while the corn they had produced was being carried upon a thousand tiny rivulets of local trade and a hundred broad streams of international commerce to the shores of England. As long as we retain the power to pay for the food we want, we may be perfectly certain that we shall get it, even though poorer countries have to go on short commons. When Mr. Leiter sent up the price of wheat to 50s. there were newspaper comments in England; there were bread riots in Italy.

#### ADVANTAGES OF FOREIGN SUPPLY.

"The next point worth noticing is the suggestion that our supplies of foreign food might be cut off by the enemy's cruisers. There are two very serious difficulties in the way of any such operation. In the first place food is not contraband of war, except in the case of a beleaguered city. It may be replied that our enemy might declare food to be contraband in order to suit our special case. But to do so would bring our foe into immediate conflict with all neutral Powers who had an interest in supplying us with food. Would the Americans tamely allow their farmers and millers to be deprived of a glorious opportunity of profitable trade because Germany, let us say, chose to declare off her own bat that food was contraband of war? And unless food is contraband of war all that came to us in neutral ships would be free even from the risk of interruption.

"In this connection it is worth while to point out that our position in time of war would be greatly weakened if our food were drawn from our colonies instead of from foreign countries. Colonial ships and colonial goods would be liable to seizure by our enemy, and none of the colonies have any independent means of protecting their own commerce. On the other hand, neutral ships and neutral goods would be exempt from capture by the Law of Nations, and if attacked could be defended by the nations to which they belong.

## A SHIPPING RISK, NOT A FOOD RISK.

"The important point to be realised is that in time of war all British ships, whether of home or of colonial origin, would be liable to capture. But they would be so liable, not because they were carrying corn, but because they were British ships. In a word, the war risk is a shipping risk, not a food risk. As such it must be guarded against by intelligent naval preparation; not by talking nonsense about food supplies. For if the problem of food alone had to be considered, it could be promptly solved, either by calling from the ends of the earth all the available neutral ships to carry food for us, or by transferring British ships to a neutral flag. Either method would secure an uninterrupted supply of foreign food. The risk to our shipping as a whole would, however, still remain, and it is, therefore, worth while very briefly to consider what the risk is.

## EXTENT OF THE RISK.

"The scaremongers always talk as if foreign Powers had an unlimited number of swift cruisers at their disposal to be used for no other purpose than hunting down British merchantmen. Where are these cruisers? If it is seriously argued that our possible enemies have a very large excess of cruisers as compared with ourselves, then let us build more, unless we can better add to our strength by building some other type of ship. If, on the other hand, the relative strength of our navy is sufficient, let us consider the problem on the assumption that our adversaries will act with a reasonable regard for their own interest. Cruisers are the eyes and ears of a fighting fleet. Is it likely that a foreign admiral, with a great British fleet opposed to him, would render his battle-ships blind and deaf in order to send his cruisers careering across the Atlantic on the chance of picking up a few cargo boats? A foreign admiral who so behaved would be worth his weight in gold, ten times over, to the British empire.

## CAPTURES—2½ PER CENT. OF OUR MARINE.

"It is of course true that there has been much talk by French fire-eaters, whose intelligence rivals that of our own Jingoese, of preying upon British commerce in the next naval

war. There has also been talk of bombarding bathing machines at Margate. One proceeding would have about as much effect as the other. In the great war with France in the last century the French deliberately devoted themselves to commerce destroying. They succeeded in capturing annually about  $2\frac{1}{2}$  per cent. of our mercantile marine, and it is shrewdly suspected that many of the ships were captured by arrangement in order that the cargoes might be landed in France without paying Customs dues. But there was then no steam. Ships had to wait for a favourable wind, and it was comparatively easy for a hostile cruiser to watch for their coming and going. It is a very different matter to catch fast steamers that can start at any moment and take any course that seems expedient.

#### ADEQUATE NAVAL DEFENCE AND A WISE FOREIGN POLICY.

"This bogey may therefore go the way of the rest. There will certainly be some risk to our commerce in time of war, and that is one of the reasons why we pay £35,000,000 a year for the Navy. But this risk to our commerce, whether it be great or small, has no special relation to the question of food supply. It is a risk to our whole sea commerce, and it can only be guarded against by adequate naval defence combined with a wise foreign policy.

#### IF WHEAT COULD NOT GET IN, NOTHING COULD.

"The folly of attempting to isolate the problem of food supply from the general problem of sea commerce can be shown in another way. We are largely dependent upon foreign countries not for our food alone but also for the raw materials of our industries. Suppose that this nation in a fit of madness had adopted one of the fancy schemes of the food supply people, and had built Government granaries instead of building warships. We should then, according to the scheme, have had twelve months' supply of wheat always on hand. A great war comes; our Navy is defeated; our commerce is driven from the sea. Instantly the supply of raw materials and of every kind of foreign food absolutely ceases, for if wheat could not get in, nothing could. Within a few days or weeks, according to the nature of the work,

more than half the mills in the country would be shut down. Even manufacturers who had a supply of raw material on hand would be compelled to shut down if they were working for a foreign market, because by hypothesis they would not be able to send their goods out of the country.

#### TWELVE MONTHS ON DRY BREAD.

"Thus the immediate effect of neglecting our commerce for the sake of our bread would be that several million working men and women would be paid off some Saturday afternoon, and told they were not wanted any more. Where would they get the money with which to buy the bread that the Government had been hoarding? Or is it part of the policy of these food suppliers that bread should be doled out gratis? If so, how about tea and sugar, to which even workhouse folk are entitled? Or have the alarmists forgotten tea and sugar, like so many other details? They assume a complete state of siege that is to last twelve months, and they propose to make no other preparation for it than by laying in a stock of wheat. For twelve months all foreign supplies are to be cut off; for twelve months our industries are to be reduced to idleness; for twelve months our artisans and operatives are to gaze patiently at silent factories and deserted workshops, and meanwhile their whole consolation for the want of almost every requisite of life is to be a dole of dry bread from a Government warehouse.

"Lancashire, it may be pointed out, would be the first county to feel the pinch of this insane policy, for her main industry is wholly dependent on foreign raw material. Has Lancashire already forgotten that the only real famine England has known for five centuries at least was a cotton famine?

#### SWAMPED BY GOVERNMENT SALES.

"It would be waste of time to dwell upon the manifold objections to this granary scheme, but it is worth while just to mention that if the Government undertook to store wheat for future needs, the work which is now done in that direction by private enterprise would instantly cease. No importer or miller would buy largely for future delivery if the market

could at any moment be swamped by sales of Government grain.

#### WHAT ARE THE REAL FACTS?

"Let us consider for a moment what are the real facts relating to the wheat trade. Mr. Sydney Young, the Secretary of the Corn Exchange, has prepared a careful estimate of the stocks of wheat in the country at different periods of the year. In September, when our own harvest has just been gathered, our stock of home and foreign wheat is equal to about  $4\frac{1}{2}$  months' consumption, by December it falls to 4 months', by March there is a further fall to 3 months' consumption, and by June we have only enough to last us for 2 months. But in addition, two or three hundred vessels are always on the sea steaming towards our shores with full cargoes of wheat. If only half of these arrived safely, we should have nearly 10 months' supply in September, 7 months' in December,  $5\frac{1}{2}$  months' in March, and 3 months' in June, or enough to carry us on to the next harvest. So that, even if we fix our attention on wheat alone, the facts are not very terrible. Moreover, Mr. Young has deliberately omitted from his calculations one very important factor. A number of corn merchants recently sent a letter to the papers declaring that it was their conviction as business men that in time of war the price of wheat would certainly rise. That being their conviction they would probably act upon it, and therefore, the moment there was any rumour of war, the corn merchants would double and treble their orders for corn and flour. Every country miller and country baker would do the same. All that is needed is a fortnight's or three weeks' notice. Do the scaremongers really contend that our Ministers are so incompetent that they would allow the nation to be involved in war with an overwhelming combination of naval Powers without any inkling of the danger leaking out till the day before the disaster was upon us? If so, what should we gain by leaving our food supply in the hands of such Ministers?

#### TO GROW OUR FOOD AT HOME.

"That is enough about granaries. The only other suggestion worth noticing is the demand that we should make ourselves independent of foreign supplies by growing our

food at home. The simple answer is that we cannot do it. Let us deal with wheat alone first. In 1870 we had about 4,000,000 acres under wheat cultivation. That is the first year in which reliable agricultural statistics were collected. It was also a year of striking agricultural prosperity. The price of wheat had been high for some time, there was every prospect of it remaining high, and as a matter of fact it did remain high. It is therefore fair to assume that British farmers in 1870 were growing about as much wheat as they could make the land carry. Since 1870 there has been a heavy decline in wheat growing, till now the acreage under wheat is barely 1,800,000 acres. Let us suppose that by some means farmers could be compelled to go back to the wheat area of 1870. Let us further suppose that the land thus again brought under wheat yielded the high average of 30 bushels to the acre. The result would be an addition of 66,000,000 bushels to our home production, or about 32,000,000 cwts. Our importation of wheat and flour last year was just over 100,000,000 cwts. So that even if we could revert to the extensive wheat area of 1870 we should still have to import 68,000,000 cwts. of wheat and flour, whereas in 1870 we only imported 33,000,000 cwts. There were then fewer people to feed.

#### TO KEEP UP RENTS.

"To most people this comparison alone will appear conclusive, but those who hanker after protection may possibly be more satisfied if the comparison is carried back to a period when protection was at its height. The first complete census of the United Kingdom was taken in the year 1821. In that year British agriculture was "protected" by a law which prohibited the entry of foreign wheat until home-grown wheat had reached the price of 80s. per quarter. This law was passed in 1815 on the ostensible plea that the nation should be made independent of foreign food supplies. (The same old game.) What the law actually did was to keep up the rent of agricultural land to a fancy price, while starving the people who tilled it. Many an agricultural labourer whose life was spent in growing this protected wheat had often to make his breakfast, dinner, and tea off a raw turnip.

"In 1820 the harvest was exceptionally good; in 1821 it was

very fair. Yet in both years it was necessary to import into Great Britain more wheat than Ireland could supply.

"The population of the United Kingdom in 1821 was 20,894,000; in 1901 it was 41,455,000. If, under the full force of protection, the British Isles did not produce wheat enough for 21,000,000 people, how are we now to grow enough for double that number?

#### QUALITY AS WELL AS QUANTITY.

"Surely these comparisons prove that it is practically impossible to grow enough wheat on our own soil to satisfy the requirements of our present population. It may be added that even if a sufficient quantity could be produced the quality would not satisfy us. Last year, for example, we had an unusually abundant harvest, but the quality of the wheat was so poor that much of it was unfit for grinding, and had to be used for feeding cattle. The taste of the public has, in fact, been educated to something better than the wheat produced by our wet summers. American flour is bought by English bakers and housewives because they like it better, and English flour would be almost unsaleable unless mixed with the stronger flours from sunnier lands.

#### OUR TOTAL FOOD SUPPLY.

"All this, however, bears only incidentally on the broad question of food supply. Though Dukes and Admirals may forget the fact, other people remember that bread is not their only food, and from the point of view of our total supply it matters not a brass farthing whether we grow our bread and import our beef, or import the former and grow the latter. To what extent our total supply is dependent upon importation is a very difficult question to determine. A careful study has been made of this question by Mr. R. F. Crawford, and his results were presented to the Royal Statistical Society in a paper read in November, 1899. Basing his calculation on the best figures then available he arrived at the conclusion that in order to produce for ourselves our total consumption of the following foods, namely, wheat, beef, mutton, butter, cheese, and feeding stuffs for cattle, we should require an additional 23,000,000 acres of land of equal fertility to those

now in cultivation. This calculation it will be noticed takes no account of such imported foods as tea, sugar, cocoa, currants and raisins, oranges, apples, and bananas. Moreover, since the calculation was made, there are at least an additional million mouths in the United Kingdom waiting to be fed. On both these grounds, as well as for reasons given by Mr. Crawford himself, the figure of 23,000,000 acres must be regarded as well below the real additional acreage needed, if we are to feed ourselves entirely off our own soil. Whether the figure is too high or too low does not, however, much matter, for it is altogether beyond our reach. The total area of Ireland, including the lakes and bogs and barren mountains, is only 20,000,000 acres, so that even another Ireland added to the United Kingdom would not satisfy the scare-mongers.

#### UNLESS THE HARVEST FAILED.

"There is, in fact, only one way to satisfy them—namely, to reduce the population of the United Kingdom to about two-fifths of its present size. Then, indeed, by pulling down our factories and ploughing up our streets we might succeed in growing enough food to keep the diminished population comfortably, but not extravagantly, fed. They would, it is true, be unable to buy most of the little luxuries which have grown into necessities even in our poorest families, but they would at least have the glorious consciousness that their food supply was secure—unless the harvest failed."

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## CHAPTER XIII.

### TRADE IN THE SEVENTIES.

PART II. of Mr. Mongredien's book treats of the depression of British commerce in 1879. That depression has long since passed away, and British trade is now more flourishing than it has ever been before. It is worth while, however, to reproduce now, in a period of prosperity, some of the arguments and statements on which Mr. Mongredien insisted in a period of depression.

In the years 1871 and 1872 there occurred a large



and sudden inflation in the amount of our foreign trade. Instead of the previous steady and normal advance of about 2 per cent. each year, it, at that period, increased by sudden jumps of  $12\frac{1}{2}$  per cent. one year and 9 per cent. the next. A brisk demand arose for all kinds of commodities, and the activity extended more or less to every branch of trade. In the year 1872 we sent abroad and received from abroad goods to the amount of £120,000,000 more than in 1870. Not that this enormous increase in the money value represented a proportionate increase in the quantities exported and imported. Mines, collieries, factories, etc., when in ordinary fair work, as they were when this exceptional activity sprang up, could not be made suddenly to increase their productiveness beyond a certain ratio. The enhanced amount of our trading operations was to no small extent due to the great and rapid rise that took place in the prices of commodities. This rise (as will be shown further on by tables) was entirely confined to our own productions. While we charged much dearer for our exports, we paid no dearer for our imports, and the increased money amount of the latter was owing to their increased volume. But, as regards our exports, the increase in their amount was largely due to enhancement of prices, and only partially to increase of quantity. The demand from abroad for our staple productions was, during the height of the inflation, far in advance of the supply, and the advance prices, caused by the competition of buyers, yielded magnificent profits to the manufacturers, abundant wages to the working men, and stimulated production to its utmost. Capital and credit came forward profusely, and almost pressing, to share in the general prosperity, and

increased the activity of trade by the unusual facilities which they afforded.

That this feverish prosperity was short-lived, and that, as is usual, it was followed by a grievous reaction, we know but too well, for we are still under the chilling influence of that reaction. It is now well understood and admitted that the operations of that brief period of lurid prosperity were injurious to the permanent and legitimate progress of the country. We had to give way and yield back a large part of the ground which we had gained by an ill-advised rush, and this, like all retreats, was attended with losses and disaster. Habits of indulgence and even of extravagance had been fostered by the rich profits and high wages of those halcyon days. Increased expenditure prevailed among all classes of society, and everything was *couleur de rose*, even to the budgets of the Chancellor of the Exchequer. But the bubble burst. Prices declined, foreign trade diminished, and profits and wages have, since 1874, been continually falling.\* We are in the position of an individual who, having had his income unexpectedly doubled by some lucky accident, and having adapted his style of living to his improved circumstances, suddenly finds his income cut down again to its old limit, and has to go through various unpleasant processes of retrenchment and self-denial.

If, instead of the "leaps and bounds" which our foreign trade made in 1871 and 1872 (as shown by the tables at p. 50†), we had only progressed at the old steady rate of 2 per cent. per annum, a calculation will show that, starting from the amount of our foreign trade in 1870—viz. £547,000,000—it would by this

\* Written in 1879.

† Tables omitted from this edition.

time have arrived at a higher figure than it actually has attained, notwithstanding the jumps of  $12\frac{1}{2}$  per cent. and 9 per cent. in 1871 and 1872. For instance, adding the supposed gradual increase of 2 per cent. per annum, our foreign trade would have reached

£558,000,000 in 1871	{ instead of the actual sum of }	£615,000,000
569,000,000 in 1872	" "	669,000,000
581,000,000 in 1873	" "	682,000,000
593,000,000 in 1874	" "	668,000,000
605,000,000 in 1875	" "	656,000,000
617,000,000 in 1876	" "	632,000,000
629,000,000 in 1877	" "	646,000,000
641,000,000 in 1878	" "	611,000,000

As, therefore, the causes that led to the inflation of our trade in 1871 and 1872 are, as it were, at the root of the commercial depression from which we are now suffering, it is of importance to trace and determine them, in order to arrive at a correct view of our present position.

Among those causes, the most direct and the most potent was the immense amount of money which England lent to foreign nations in the course of the years 1870, 1871, 1872, and 1873. During that period France, Russia, Turkey, Egypt, Peru, Brazil, India, American States and cities, together with a host of South American republics, and also the promoters of foreign undertakings of all sorts, such as railways, telegraphs, gas-works, water-works, etc., appeared as successful borrowers in the English money-market to an extent totally unprecedented till then, and quite unequalled since. No doubt a certain share of the amount was contributed by foreign investors, but it was British capital that provided a very large propor-

tion of the colossal sum that was raised. It is very difficult to ascertain with any degree of precision the total amount that England had to remit abroad in consequence of making these loans, for they were contracted for at various rates of deduction from the nominal capital—some were payable in instalments, and of others a portion was set aside for sinking funds, etc. But it may not perhaps be very wide of the mark to estimate the total amount that England had during the four years, 1870 to 1873, to transmit abroad in fulfilment of these engagements, at £450,000,000, forming an average of £110,000,000 per annum.

How was the transfer of this enormous amount accomplished? Assuredly not by shipments hence of bullion and specie. We have already seen that no large movements of money from one country to another are ever effected by corresponding displacements of the precious metals. A comparatively slight encroachment on the circulation requirements of the exporting country so violently disturbs the exchanges that reaction ensues, and the balance is speedily redressed. But setting aside all theoretical reasoning, it is a fact that English imports and exports of bullion and specie for the four years during which the transmission abroad of the vast sum in question took place were as follows:—

#### GOLD AND SILVER.

YEAR.	IMPORTS.		EXPORTS.	
1870 ...	£29,400,000	...	£18,900,000	
1871 ...	38,100,000	...	33,700,000	
1872 ...	29,600,000	...	30,300,000	
1873 ...	33,600,000	...	28,900,000	
	<u>£130,700,000</u>		<u>£111,800,000</u>	

We, therefore, during the four years in question, received from abroad gold and silver bullion and specie to the amount of £19,000,000 more than we sent away.

Further proof of the absurdity of believing that an excess of imports means a depletion of the stock of precious metals, or, indeed, that there is any relation between their import and export and the state of trade generally, is available in another summary compiled by Mr. Mongredien for the years 1876, 1877, and 1878, when trade was bad and our exports of goods were greatly exceeded by our imports. The total amount of the gold and silver imported into, and exported from, the United Kingdom during that period was as follows: —

Importation during the three years of gold	£59,000,000
Exportation                   "           "           "	51,500,000

Excess   £7,500,000

Importation during the three years of silver	£46,800,000
Exportation                   "           "           "	44,100,000

Excess   £2,700,000

Since that time there has every year been a great excess of general imports over general exports, and yet almost every year more gold and silver have been brought into the country than has been sent out of it.

In proceeding to solve the question, it must be borne in mind, in the first place, that British investments abroad had for many years before 1870 been constantly on the increase, so that by that time the dividends which foreign debtors had to remit yearly to England formed a very considerable sum. Each year after 1870 those annual payments have become larger, and by this time they have expanded into a

prodigious total. It has been shown (p. 47)\* that after deducting the dividends that should be, but are not, paid by the insolvent States, the yearly sum of £165,000,000 is still actually divided among the holders of national stock throughout the world. To these dividends on national loans must be added the dividends payable on a multiplicity of foreign, municipal, joint-stock, and other public investments which swell the total sum distributed annually among private investors to upwards of £200,000,000. What proportion of this amount falls to the share of the British investors can only be a matter of conjecture. It must, however, be observed that, with the exception of France, the United States, Portugal, and, perhaps, one or two others, only a small proportion of the money borrowed by the fifty other States of the world has been lent to them by their own subjects respectively. Who, then, are the lenders? France, Germany, and Holland are wealthy nations, and are holders of a considerable amount of foreign stocks; as also are, of course, a certain number of opulent individuals in most civilised countries, but, undoubtedly, it is British capital which is the most profusely invested abroad, and which is the recipient of a proportionately large share of the total annual dividends.

Whatever that share may now be, there is reason to believe that in 1870 the annual amount accruing to England for interest and dividends on foreign investments was at least £30,000,000, and that by 1874 this amount was increased, by the large fresh advances made meanwhile, to £50,000,000, which gives an average of £40,000,000 for the intervening period. This sum would naturally form a part of the £110,000,000

\* Original edition.

remitted to the borrowers abroad each year of the four in question, leaving £70,000,000 still to be accounted for. This enormous amount was supplied, either directly or indirectly, by an increase to the same annual amount in the exportation of British goods. That this was the case, we have both negative and positive proofs. Negative, because there is no other way of showing how the money was handed over to the borrowers. That they did receive it, nobody denies; that it was not sent to them in the shape of bullion or specie we have made abundantly clear; there is, therefore, no other possible way in which it could have reached them, except in goods, either directly or indirectly. And as regards proof positive, we have merely to refer to the unerring records of the Board of Trade. These show that the exports from the United Kingdom during the four years 1871-1874 averaged nearly £68,000,000 in excess of those of the preceding four years, 1867-70; which excess as nearly as possible accounts for the £70,000,000 which remained to be provided for out of the £110,000,000.

It is evident, therefore, that, as soon as the "abnormal stimulus to exportation" was withdrawn by the cessation of England's mania for granting foreign loans, the amount of our exports rapidly diminished, and they have continued gradually to recede until at the present time they have fallen to the exact point in 1870 (£245,000,000 per annum) from which they darted forward so briskly in 1871.

No small portion of the loans made to foreign countries had been handed over direct to them in the shape of commodities required for national purposes, such as iron rails, locomotives, iron steamers, machinery, fire-arms, steam-coal, and similar objects; and while ex-

portation generally was stimulated to an unprecedented extent, the articles above referred to were, beyond all others, forced up to unnatural prices. Of course, these were the articles that most keenly felt the reaction. England, after 1874, not only lent money abroad much more sparingly, but had yearly to receive more from abroad for interest and dividends. Exportation, therefore, no longer artificially excited, gradually fell off, and now flows within its former natural channels, so that, compared with its previous impetuosity, the current appears to have become languid and sluggish.

So much for the causes of the transient prosperity of the years 1871-4, and for their bearings on the depression in trade that has since prevailed (1879).

The interest upon British capital invested abroad now amounts to probably not less than £125,000,000 a year. Part of this interest is allowed to remain abroad for re-investment, so that our total capital invested abroad is automatically growing. In addition, new capital is still being exported, with the result that the additions to our capital investments mount up to about £30,000,000 a year.

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## CHAPTER XIV.

### OUR IMPORTS OF FOREIGN MANUFACTURES.

By C. H. CHOMLEY.

PROTECTIONISTS are now making much of the increase of manufactured goods from abroad in our items of import; this increase is an inevitable result of our expanding trade. We can consume only a certain amount of food, and the major portion of that we get from abroad. If the protectionists had their way and imposed a corn tax to increase home production, we should import less food than we do now, and unless we suffered foreign countries to leave their interest



and shipping freights due to us unpaid, we should be forced to take from them more raw material and manufactured goods. The distinction between these two categories is arbitrary and uncertain. As has before been pointed out, there is scarcely a single manufactured article which is not the raw material of some other industry, and a striking example is afforded in worsteds from Germany, the increasing import of which is the subject of dismal croaking by protectionists. They appear among our imports as manufactured goods "dumped" upon us by the foreigner, and yet this dumping, while it assists the clothing industry of which worsteds are raw material, is only possible because the Germans are magnificent customers for yarns "made in Bradford." These yarns are the finished product of the British who export them, the raw material of the Germans who import them, just as the worsteds are, in their turn, raw material to their purchasers. "Bradford," said Sir Swire Smith, at a lecture delivered at the Bradford Technical College, reported in the *Bradford Observer* of November 27th, 1896, "afforded a concrete example of the effect of German competition, for it would be difficult to say which country had benefited most by it. The export of woollen, worsted, and alpaca yarns to Germany in the average of the following periods of years amounted in 1880-85 to 41,500,000 lb. per year; in 1890-95 to 63,800,000 lb. per year; and in 1895 to 78,900,000 lb. Bradford had been the greatest contributor to German success in the weaving of worsteds and alpacas, and Germany had been the greatest contributor to the success of Bradford by buying its yarns. To put a tax on German worsteds that would shut them out of England would stop the sale of Bradford yarns in Germany."

Thus it is clear that an increase in the import of manufactured goods is frequently a direct result of British success in manufacturing; less directly it is also the result of large foreign purchases of British machinery for manufacturing purposes; in other cases it contributes to the success of our own industries, as when we import steel billets manufactured abroad and use them in the building of ships.

But apart from the foreign manufactures that are devoted to further production, it should be clearly recognised that as British wealth increases, more and more foreign products,

articles of luxury and use, will inevitably be imported into the United Kingdom from abroad. They are received by us in payment of interest and in payment for exports of articles which it suits us better to produce than those which we obtain in exchange. Under protection we should continue to receive them unless protection ruined our trade, but duties would render them more costly to the ultimate purchaser who now gets full value for his money.

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## CHAPTER XV.

### THE POLICY OF THE OPEN DOOR.

By C. H. CHOMLEY.

VERY little proof is needed that protection and the war spirit are nearly allied, and this consideration alone should strongly appeal to the working population of this country who, in the depths of their hearts, have a profound love of peace. If the "open door" policy were adopted by Russia, France, and Germany, what would it matter to us or to other nations if they secured a footing in the barbarous countries and waste places of the earth, where we are now inclined to thwart them by generally unavailing diplomacy and unfulfilled threats, lest they should shut British goods out of the markets they acquire? We have enough and to spare of empire awaiting development, and if free trade were universally applied it would be an unmixed benefit to the United Kingdom that foreign nations should expend capital and energy in developing such of the remaining countries of the earth as must inevitably some day come beneath European control. It is the fear of the closing door in Asia that keeps us on strained relations with Russia, and necessitates a continual state of preparedness for war in defence of trade in neutral markets. Further, it is the same fear that drives us into continual annexations and little wars in every quarter of the globe. Much of the territory we have we do not want, and we would gladly leave its peoples to work out their own salvation were it not that protectionist nations would promptly pounce upon it, and write up over its portals, "No British goods to enter here."

That is all very well, someone may say, as an argument for universal free trade, but does it not follow that pending the coming of a fiscal millennium Great Britain should write up over the doors of her own territories, "No foreign goods to enter here"?

The answer is: No, it does not follow. Universal free trade would doubtless be best, but it is to free trade that Great Britain owes the comparative peace in which she has acquired her own vast empire. We have had wars in Egypt, wars in the Soudan, wars in South Africa, Burmah, and elsewhere. Into some of them we have been forced, since if we had not acquired control of the territories out of them we should have been shut, but it is scarcely doubtful that through our free trade policy we have been spared more wars than we have fought. In spite of foreign jealousy of the United Kingdom, foreign self-interest will permit annexations by this country with no more than growls and threats, when annexation on the part of a protectionist neighbour would mean European war. British control means the open door, and an opportunity to the merchants of all countries for all the trade they have skill and energy enough to capture; to Germans it is the next best thing to German control, to Frenchmen the next best to control by France, whereas annexation by either of these nations involves the practical exclusion of the other from a monopolised market. Had it not been for our free trade policy we should have had other peoples to fight besides Egyptians and Soudanese in Egypt and the Soudan, for European nations would not tolerate, without a struggle, the closing of such markets to the commerce of every country but England. And had it not been for a comfortable feeling among foreign merchants and manufacturers that British success in South Africa meant markets which would not be closed to their goods, the wave of feeling against Great Britain on the Continent would not have expended itself in malicious cartoons and cheers for the Boers.

Free trade is pre-eminently the peace policy. While it is not universal, Great Britain must be prepared for war, she must perhaps acquire territory at the expense of little wars, but she can thank free trade for her immunity from big wars in the process of her empire building.

## CHAPTER XVI.

## BRITISH AND AMERICAN SHIPPING.

As an instance (and it is an important one) of the comparative results of free trade in England and of protection in the United States, let us look at the relative success of each in securing a share in the carrying trade of the world—a prize worth contending for. Up to 1849, Great Britain “protected” her mercantile navy by the celebrated Navigation Laws, which created almost a monopoly of our trade for our own merchantmen. In that year we repealed those laws, and boldly threw our trade open to universal competition. Of course, the total downfall of our mercantile navy was confidently predicted by the protectionist party, but their fears were not realised. Instead of decadence came development; our mercantile marine became more pre-eminent than ever; we have become the carriers for the world, and our flag waves in every port where any trade exists at all. This was the effect of discarding protection.

Now let us look at the working of the opposite system (protection) on the carrying trade of the United States. Previously to 1860 the American mercantile marine competed stoutly with our own as carriers of merchandise from one part of the world to another, and they obtained a considerable share of that lucrative employment for capital and labour. Nearly three-fourths of the goods that were sent from, or brought

to, their own shores were conveyed in United States vessels, and the Stars and Stripes were constantly found alongside the Union Jack in the principal trading ports of the world. The unfortunate Civil War between North and South put a temporary stop to this competition, for, with the characteristic spirit of the Anglo-Saxon race, all the energies of the American people were concentrated on that fierce struggle. But after the close of the war there was apparently nothing to prevent the American shipowners from resuming their rank among the mercantile navies of the world. One thing, however, had occurred meanwhile which destroyed all their chances of success. The protective system had assumed formidable dimensions. The ruling party carried it out to an unprecedented extent, and by the imposition of excessive import duties shut out cheap foreign goods, to be replaced by dear native ones. Prices were raised thereby to such a point that it became no longer possible for America to construct and equip merchant ships (whether sailers or steamers) on terms that would allow the owners to compete with British merchantmen, and the latter have accordingly had the carrying trade almost to themselves ever since. The United States, nevertheless, possess a large and very fine mercantile navy, but its operations are in great measure restricted to their extensive coasting and internal trade. Owing to her immense seaboard bathed by two vast oceans, the Atlantic and the Pacific—to the noble rivers that afford navigable access to the very heart of the country—to the great expanse of her lakes, or, rather, inland seas—owing, above all, to the free trade system that prevails between state and state, and to the skill and enterprise with which it is utilised in the extension of trade between one

part of the huge continent and the other, a very large tonnage is required to meet that internal demand. But when we come to the external relations of the United States, in which free trade is abolished and replaced by protection, American shipping is so heavily handicapped that it is distanced by some even of the minor States of Europe. From her own ports her own produce is now carried away mostly in foreign bottoms.

The following figures show how American ocean shipping has declined under protection, while British ocean shipping has expanded under free trade.

#### SHIPPING ENTERED AND CLEARED

In the direct trade between the

#### UNITED KINGDOM AND THE UNITED STATES.

*In Thousands of Tons.*

	1860	1870	1880	1890	1900	1902
British ...	946	2,626	6,939	7,885	10,162	11,320
American ...	2,245	827	613	247	541	558
Other ...	166	287	1,442	763	1,035	1,008
Total ...	3,357	3,740	8,994	8,895	11,738	12,886

The Americans have always been, and still are, keenly anxious for a mercantile marine of their own. What they fail to realise is, that by their protectionist system they have killed a shipping industry which once rivalled, and in many respects surpassed, our own.

## CHAPTER XVII.

## THE BALANCE OF TRADE.

BY THE RIGHT HON. G. SHAW-LEFEVRE.

*Reprinted from a Cobden Club Pamphlet.*

THERE are many not very wise persons to whom the great and constantly growing excess of the value of the yearly imports to this country over that of its exports appears to be a most dangerous feature of our trade, and evidence of its being worsted in the industrial and commercial competition with the rest of the world.

How, they ask, can a country be rich and prosperous when it is yearly buying more than it sells? Gold, they say, must be continually draining away to make up the balance of the annual trading account, and consequently the country as a whole must be depleted of its wealth and savings, and must be yearly growing poorer instead of richer. Such a condition must, they fear, lead ultimately to national bankruptcy. For this and other reasons, and to save the country from this end, and stimulate its exports, they advise the levying of duties on imports.

The Trade Returns of Imports and Exports, which cause so much alarm to such persons, show that for the three years, 1865-7, the net imports, after deducting the re-exports of foreign and colonial produce, were valued at the average for each year at £231,000,000,

and the exports at £180,000,000—a difference in value for each year of £51,000,000.

Twenty years later, for the three years 1885-7, the difference rose to the annual average of £91,000,000—the imports being valued at £306,000,000 a year and the exports at £215,000,000.

For the last two years, 1901-2, after fifteen more years, the difference has risen to an average of £185,000,000—the imports being £458,000,000 a year and the exports £273,000,000.\*

The average difference, therefore, rose in thirty-six years from £51,000,000 to the enormous sum of £185,000,000, or 220 per cent., and in the last fifteen years from £91,000,000 to £185,000,000, or more than 100 per cent.

These figures are certainly very striking. When fully understood, however, it will be seen that, instead of being evidence of unsoundness in the condition of the country, they supply overwhelming proof of the growth of its wealth during the period they include, and of the greatness of its resources.

### AN ECONOMIC “PONS ASINORUM.”

The economic problem involved in this question is, in fact, akin to that in Euclid which is commonly called the *pons asinorum*. There are persons even in high positions, like Mr. Seddon, the Prime Minister of New Zealand, who seem to be quite incapable of solving it, or of understanding that the excess of imports over exports is evidence of the accumulating wealth

\* I have deducted from the figures given in the Trade Returns for these two years the values of new ships exported, which were not included in previous returns.



of a country and not of its poverty. If it were true that this country for forty years and more has been buying more than it can pay for, and has been depleted of its gold in the effort to make up the balance, the process would long ago have been complete, and ruin would now be staring us in the face. For the aggregate excess value of imports over exports for the thirty-eight years since 1865 has been considerably over £3,000,000,000, an amount much more than ten times greater than all the coin which has ever existed at one time in this country. So far, however, from the country being depleted of its gold and silver coin, the reverse has been the case. In each year on the average, since 1865, a large excess of gold and silver coin and bullion has been imported above the value exported, and this has amounted to nearly £5,000,000 a year. A part of this silver and gold bullion has been used for manufacturing purposes, and has been worked up by goldsmiths, silversmiths, jewellers, and others in their business; but a large part has been coined annually into gold and silver pieces, and has been added to the currency of the country, showing conclusively that there has been no depletion of gold and silver, and that whatever has been needed for the purpose of exchange as currency has been obtained without difficulty.

It is clear, then, that the adjustment of the yearly difference between exports and imports must be made independently of the currency.

### CAUSES OF GROWING DIFFERENCES.

The causes of these great and growing differences in value have, in fact, been the subject of careful investigation by economists and experts. No one ap-

plied himself more fully and carefully to this subject than the late Mr. William Newmarch, one of the ablest economists of his time. He read a paper on the subject before the Statistical Society in 1878, when the country was passing through a period of depression, and when in the previous year the difference between the value of imports and exports had reached the amount of £151,000,000, or nearly three times the total of twelve years previously, and there was consequently much alarm in some people's minds. The subject was also treated by Sir Robert Giffen in a paper before the same Society on "Recent Accumulations of Wealth"; and in the same year, when President of the Society, I dealt with it at some length, by the aid of the above papers, in my presidential address, and illustrated it by a table which I will later explain.

In the first place, Mr. Newmarch and Sir Robert Giffen agreed that great deductions must be made from the aggregate values of imports as given in the trade returns, and that corresponding additions must be made to the value of exports before they are compared with one another as items in the international account between this country and the rest of the world.

The values of imports as given in the returns are the values of goods imported into the country declared at the port of entry; but these amounts are much above those which have to be paid in cash to the foreign or colonial exporters or producers. If, indeed, they all came to us in vessels belonging to the countries or colonies from which they are exported, we in this country should have to pay the full value of the goods on arrival, and the whole of this would be counted against us in an international account. But considerably more than two-thirds of the im-

ports come to us in British ships, and the price which has to be remitted to the foreign exporters in such cases is less freight, insurance, brokerage, and many other items which are paid to British shipowners and brokers, and which must not be included in the international account. Mr. Newmarch, after an exhaustive examination, came to the conclusion that these deductions could not be estimated at less than 5 per cent. of the value of the goods imported at the port of entry.

For the same reasons considerable additions, even greater in proportion than the deductions in the case of imports, must be made to the value of our exports. Exports are valued in the trade returns at the port of shipment at the price of the day. About the same proportion of them are shipped in British ships as in the case of imports. In such case the amount payable by the foreign or colonial consignee on arrival at their destination must include freight, commission, and insurance. It includes also the exporter's profit, which is estimated at 5 per cent. Mr. Newmarch put a low estimate on these additions at 10 per cent., and this figure has generally been adopted by those who have investigated this subject. This addition must be made not only in respect of British goods exported from this country, but also in respect of foreign and colonial goods re-exported.

It follows, then, that the annual difference between the values of net imports and exports must be reduced:

1. By 5 per cent. on the value of all foreign and colonial goods imported.
2. By 10 per cent. on the value of British goods exported and of foreign and colonial goods re-exported.

Making this reduction, it appears that the average

difference in value of exports and imports for the three years 1865-7 should be reduced from £51,000,000 to £18,000,000; that the average for the three years 1885-7 should be reduced from £91,000,000 to £46,000,000, and that for the last two years 1901-2 from £176,000,000 to £126,000,000.

It will be seen that when these reductions are made, the growth of the remaining differences proves to be greater than before deduction, though the totals are not so large.

The difference for the first three years was only £18,000,000; for the second period it was £46,000,000, and for the last two years it has averaged £126,000,000, or seven times greater than in the first period thirty-eight years ago.

### EXPLANATION OF GROWING REAL DIFFERENCE.

For the explanation of this great growth of the real difference in values of exports and imports after making the above deductions, we have to take account of two very large items, or, rather, groups of items.

In the first place, there is the interest due to persons and companies in the United Kingdom on their investments in foreign and colonial government and municipal stocks, and in shares of public companies carrying on railways, banks, and other concerns in foreign countries and our colonies, on which income tax is payable in this country, and where consequently the interest on dividends due is remitted to this country.

There are, secondly, the remittances which are made annually by the Indian Government for expenses

incurred in England in contributions to the military home establishment, to pensions to retired Indian civil and military servants, and many other items ; there are also remittances made from India and elsewhere by the servants of the Crown, and by numerous private traders and employees of railway and other companies all over the world, for the maintenance of their families in England and for the investment of their savings. There are also the transfers to England of the fortunes of persons on retirement or death, who have been trading abroad—items which annually reach a very large amount, and which do not pay income tax. There are also freights due in respect of British ships trading between different foreign and colonial ports, and many other similar payments.

### **GROWTH OF INCOME FROM FOREIGN INVESTMENTS.**

The totals of these items in any one year or in the average of years must be to a large extent a matter of estimate. In respect of the first of these two groups of items, the interest due on foreign investments paying income tax, the most definite estimate was laid before the House of Commons in 1901 by the late Chancellor of the Exchequer, Sir M. Hicks Beach, who, in answer to a question, stated that, though it was not possible to give the exact amount of interest on foreign investments on which income tax was paid, yet the Excise Department had good reason to believe it was not less than £90,000,000 a year. Sir Robert Giffen, in 1878, estimated the amount of such interest then paid on foreign investments at £65,000,000. Assuming the official estimate for 1901 to be accurate, and

working backwards to the year 1878, I incline to think that Sir Robert Giffen's estimate for that year was too high, and that it should not be put at more than £52,000,000, and that in 1865 it amounted to £25,000,000.

On this basis, which is a very moderate estimate, the interest due on foreign investments paying income tax grew from £25,000,000 in 1865 to £52,000,000 in 1878, and to £90,000,000 in 1900; and this increase must be due to a large annual investment of fresh British capital in foreign and colonial securities, adding continually to the total aggregate, and consequently to the interest due on it.

#### ANNUAL REMITTANCES TO THIS COUNTRY OF MONEY DUE.

With respect to the second head—namely, the annual remittances by the Indian Government and Englishmen abroad and in the colonies, freight, etc.—it is more difficult to form an estimate. We know that the remittances of the Indian Government amount to £17,000,000 a year, but a part of this represents interest on guaranteed railways, which may have been included under the first head. With respect to transfers of property on retirement or death, Mr. Newmarch, in 1878, said that “forty years ago it was well ascertained that the fortunes of civil and military servants of the East India Company, and of merchants trading in India and China, annually transferred home were not less than £6,000,000 sterling, and if £6,000,000 in 1838, what are they in 1878, when India has become only one of the regions of the earth in which British subjects ac-

'cumulate fortunes?' I think a very moderate estimate under this head is £25,000,000 for the year 1865, and rising gradually to £40,000,000 in 1902.

We have, then, the two great items of (1) interest on investments abroad paying income tax ; (2) remittances from abroad to British account at home not paying income tax, which together may be estimated at a very moderate rate at £53,000,000 in 1865, £84,000,000 in 1878, and £130,000,000 in 1902. When these are compared with the net excesses of imports over exports, it will be seen that they much more than account for these excesses, and that there is a large balance over and above. For instance, in 1865 the net excess of imports was £19,000,000, and the interest on investments and remittances to this country amounted to £53,000,000, a difference of £34,000,000. For the year 1878 the excess of imports was £56,000,000 and the interest due on remittances was £83,000,000, a difference of £27,000,000. In the last year, 1902, the excess of imports was £126,000,000 and the interest and remittances amounted to £132,000,000, a difference of only £6,000,000.

## ANNUAL INVESTMENT OF CAPITAL ABROAD.

It is obvious that there must be some other considerable amounts, varying very much in different years, on the other side of the account which make up the balance of the account. These, it need hardly be said, must be the annual fresh investments of British capital abroad and in the colonies, which are known to have been very great, and which varied considerably according to the general prosperity or otherwise of this country.

If in 1865 the interest due on investments abroad has been rightly estimated at £28,000,000 a year, this, on the basis of a 5 per cent. investment, represented a capital sum of £560,000,000; and if the interest due on such investments abroad rose to £90,000,000 in thirty-six years, as estimated by the Excise Department, and paid income tax, it is clear that in the thirty-six years the aggregate sum of £1,240,000,000 must have been invested abroad, giving interest of £62,000,000 a year, the difference between £90,000,000 and £28,000,000. The average annual investment during this period of thirty-six years must therefore have been £37,000,000. As a matter of fact, it is well known that in many years the investments of British capital abroad far exceeded this sum, and in other years fell greatly short of it. On the above estimate, the total amount invested abroad and paying income tax amounts at the present time to somewhat over £1,800,000,000.

### EXPLANATION OF TABLE.

Assuming that the above estimates fairly represented the actual facts, I have constructed a table on the basis of that which I devised in 1878, showing for periods of five years since 1865 the average annual net values of imports and exports, after making the necessary deductions and additions, the average interest due on British investments abroad and remittances to England, and the probable fresh average investments of British capital abroad.

I have assumed that for the first year, 1865, the interest due on British investments in foreign countries and in the colonies was £28,000,000, and that the re-



mittances from the Indian Government and other remittances amounted to £25,000,000, making a total for the two items of £53,000,000. The net excess of imports for the same year amounted to £19,000,000, and I have concluded that the difference between this and the £53,000,000—namely, £34,000,000—represented in that year the aggregate of fresh investments abroad of British capital.

For the following year I have increased the interest due on investments abroad paying income tax by that due on the £34,000,000 invested in the previous year at the rate of 5 per cent ; and in each succeeding year, or averages of five years, I have adopted the same course, assuming that the difference between the net excess of imports over exports, and the amount of interest due on foreign investments and of remittances on Indian and other accounts, represents for each year, or average of five years, the fresh investments of British capital abroad. I have also gradually increased the item of remittances not paying income tax from £25,000,000 in 1865 to £40,000,000 in 1902.

On these estimates and data, the table shows that the interest due on the investments of British capital abroad paying income tax in this country increased from £28,000,000 in 1835 to £92,000,000 in 1902, which corresponds with the statement of the Chancellor of the Exchequer for 1900, and that in the interval of thirty-eight years an aggregate of £1,290,000,000 has been invested abroad at the average rate of interest of 5 per cent. an average of about £34,000,000 a year. It also shows that there have been periods when the investments were very much above this average, and others very much below. Thus, for the five years 1866-70, the investments

abroad averaged £39,000,000 ; for the next five years, 1871-5, a period of immense expansion of our trade and enormous prosperity, the investments averaged £60,000,000 a year. For the five following years, a period of grave commercial depression, the investments abroad averaged only £3,000,000 a year, and they rose again in the next two quinquennial periods to £35,000,000 and £59,000,000. Since then they have fallen again. For the five years 1896-1900 they were only £19,000,000 a year, and the last two years only £6,000,000 a year, a reduction due no doubt to the war in South Africa, the raising of great internal loans, and the vast increase of normal expenditure on the Army and Navy, reducing *pro tanto* the savings of the country.

The table must not be taken as mathematically accurate. Its figures are approximations to the actual facts, depending on estimates ; but they accord in their general conclusions with well ascertained facts, especially as regards the great variations in the rate of investments of capital abroad, and they afford, I think, an intelligible chart of the growing excess of imports over exports.

In the main this increase is due to the continually increasing amount of interest due to people in England in respect of their investments abroad. If it were not that fresh investments abroad are annually being made, the differences between the values of exports and imports would be even greater than they are and have been.

The greatest investment ever made in one year, according to this table, was in 1872, when £78,000,000 was probably invested in this way. In that year the net value of exports exceeded that of imports by only

£8,000,000. The investments since then, though not so large in any one year, have continually increased, with the result that the whole world is now indebted to the people of this country by an amount on which interest is due of £92,000,000, and remittances are further due in respect of other matters referred to of a total of £40,000,000, making total due to this country in the year of £132,000,000, and this amount, to the extent to which it is not met by fresh investments of British capital, must be remitted to this country in the shape of foreign and colonial goods.

#### **INCREASED EXPORTS OFTEN DUE TO INCREASED INVESTMENTS ABROAD.**

The table shows that when the investments abroad have largely increased, the exports of British goods have also shown a large increase. The explanation seems to be that for the time these great investments of British capital abroad had the effect of stimulating the exports of British manufactures. For instance, immense sums were advanced a few years ago by British investors for the construction of railways in the Argentine Republic. The steel rails and rolling stock for these railways, which formed a large part of the outlay, were manufactured in England and swelled the amount of exports for the time. The same was the case with Indian and Australian railways. Of the money invested in recent years in gold mines in South Africa, a not inconsiderable portion has been expended on plant and machinery exported from England.

It is also to be observed that the interest due to this country is remitted, not in money, but practically

in the form of produce of all kinds, of food, of raw materials for our manufactures, and of manufactured goods.

Of the total value of imported goods retained for home consumption, after making the deduction of 5 per cent., it appears that nearly one-third, or £132,000,000 out of £433,000,000, comes to us in the shape of goods and produce, representing the interest due to us from our foreign debtors and other remittances already explained, and the remaining two-thirds represent the payment for manufactures and produce which we export.

It may be confidently asserted that no other country in the world can show an international balance sheet at all comparable with that of this country, or an amount of indebtedness due to it from other countries in any way approaching to that which is due to us. Does it not also follow as a matter of course that the commercial system which is founded on the principles of buying in the cheapest market, at the lowest price, all that we require, is a thoroughly sound one, and has been to a large extent the cause of great profits enabling investments which have made all the world our debtors?

### **GAIN TO THIS COUNTRY OF FALL OF PRICES IN RESPECT OF INTEREST DUE ON FOREIGN SECURITIES.**

Another consideration must occur to those who carefully examine these figures—namely, how enormously this country has gained by the great fall of prices during the last thirty years of all articles of food and of raw produce for our manufactures.

The interest of the great investments in foreign and colonial securities is, with rare exceptions, payable in gold. The real value to this country of this interest is not the gold itself, but what can be bought for it. Gold prices of all the main articles required by us for food and manufacture have fallen during the thirty years by 30 to 50 per cent. This country as a whole has had the benefit of this great reduction in value of articles of import. The interest due to it in gold has bought and brought home to us from 30 to 50 per cent. more in the shape of food and raw produce than it did relatively thirty years ago.

If present prices of imports were the same as they were in 1871, we should be compelled to pay on the average from 30 to 50 per cent. in excess of what we now spend for the purpose.

The gain to this country from this fall of prices has been very great. It has not been achieved at the expense or to the cost of other countries. The lower prices are mainly due to inventions which have lowered the freight of goods by rail and by ships, and to the expenditure of capital in opening out vast regions in North and South America and elsewhere.

Let us take the Argentine Republic as an example. British capital almost exclusively has constructed a great system of railways there, and has enabled the cultivation of vast areas, and has brought the corn and maize at low freights to England in such quantities as to lower the price of all such produce everywhere else. A similar effect has been produced by the investment of British capital in Indian railways. The capital invested in tea plantation in India and Ceylon has been mainly instrumental in lowering the price of tea.

The general result has been that our foreign invest-

ments have resulted to a large extent in feeding this country at a very low rate. The interest on these securities due to this country pays for two-thirds of all the food required by us in excess of what we produce.

It is possible also that this country may, to some limited extent, have benefited by the appreciation of the value of gold relatively to other articles, which many people think took place between 1875 and 1895. If there was such appreciation, which is open to much doubt, and which at all events must have been slight, it must be admitted that the country as a whole must have derived benefit from it, for it would mean that a given amount of gold has purchased a larger amount of food and other produce required by us, and that the value of all our previous investments payable in gold has been proportionately enhanced.

However that may be, it is certain that if our imports for the last two or three years were valued at the same rate at which they averaged for the ten years before 1871, their aggregate value would be at least 30 per cent. higher, while it may be doubted whether the exports could be valued at more than 15 per cent. higher. For a given amount of labour in England, the manufacturer and labourer have been able to obtain a much larger exchange of food and produce from abroad.

The classes which have gained most by the fall of prices, due so largely to the investment of British capital abroad, have been the labourers in our fields and workshops, and the lower the class of labourer the greater has been the advantage, for a larger proportion of their earnings are spent on those articles of consumption of prime necessity where the fall of price has been greatest, such as bread, sugar, and tea.

## RESULT OF POLICY OF FREE IMPORTS.

It is quite certain then that the system adopted of buying in the cheapest market all that we require, of putting no impediments in the shape of duties on the free entry of imports, other than those for excise purposes, on such articles as tea, tobacco, and sugar, which we do not produce in this country, has been attended by enormous advantages to our labouring people. There is no evidence that any large classes of such persons are unemployed. Crime and pauperism have been largely reduced of late years, compared with twenty, thirty, and, still more, fifty years ago. We have in the interval found employment for a greatly increased number of workers. Each decade has added four millions to the population. In the last twenty years over two millions have been added to the number of men of an age suitable for work, and all have found work. It may be that some of the leading industries have not increased in the same proportion as the population, but a vast number of subsidiary trades have sprung up and have added variety to our manufacturing industry.

We have imported all that is required for this constantly growing population and their growing wants, and if we have also imported a larger proportion of manufactured goods from abroad, it would seem to be in part due to this—that we have exhausted all the wants of the population for food and raw material, and that, being supplied to the full of these, we have had to take manufactured goods in payment for interest due to us or for other manufactured goods sold by us.

A great part of the improvement which has taken place may be, and is, due to other causes than free trade,

but it can scarcely be doubted that the enormous profits made by this country during the last fifty years, of which it has invested a large part in foreign securities, and which has resulted in this country being the creditor of all the world, have been largely due to the wise and simple policy laid down and adopted by Sir Robert Peel, Mr. Cobden, and their coadjutors, of buying in the cheapest market, and of opening our ports freely to imports without being deterred by what other countries might do, against their own real interest, in imposing duties on their imports.



# BALANCE OF TRADE.

Table to illustrate the causes of the growing differences between the values of Imports and Exports and the increasing investments of British capital in Foreign and Colonial Securities.  
000,000 omitted.

Years	1. Value of Imports after deducting Re-exports, and 5 per cent. for freight on British ships, insurance, and commissions.	2. Value of Exports, adding 10 per cent. on Exports and Re-exports for freight on British ships, insurance &c., and for exporters' profit.	3. Difference between 1 and 2, the net excess of Imports over Exports.	4. Estimated interest on British capital invested in Foreign and Colonial securities bearing Income Tax.	5. Estimated annual remittances to England from Indian Government, and other remittances of Englishmen abroad and in colonies, not paying Income Tax.	6. Total of 4 and 5.	7. Difference between 6 and 3, representing probable annual investments abroad of British capital.
1865	206	187	19	28	25	53	34
1866 to 1870 years' average.	232	209	23	35	27	62	39
1871 to 1875	284	270	14	45	29	74	60
1876 to 1880	308	225	83	55	31	86	3
1881 to 1885	316	261	55	57	33	90	35
1886 to 1890	308	265	43	67	35	102	59
1891 to 1895	339	255	84	80	37	117	33
1896 to 1900	389	281	108	88	39	127	19
1901, 1902	432*	306*	126	92	40	132	6
2 years' average.							
The estimated capital sum on which interest was due in 1865				...	...	£ 560,000,000	
The aggregate of investments between 1865 and 1902				...	...	1,290,000,000	
The present estimated capital sum				...	...	1,850,000,000	

\* Deduction has been made from the amount of exports for the years 1801 and 1802 of the values of new ships exported, which were included for the first time in the statistics of the country. It is probable that the values of new ships exported gradually rose in the 35 years from 1865 to 1900 from 2 or 3 millions to 7 millions, and averaged about 5 millions. On the other hand, the values of the excess of imports over exports of gold and silver coin and bullion are not included in the yearly values of imports. These have averaged about 5 millions a year. It has been thought, therefore, that the two items may fairly be considered as balancing one another on the opposite sides of the international account.

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